

# Public Utilities

FOR MONTHLY

Volume XLVI No. 6



September 14, 1950

## NORTHEASTERN AREA POWER AND THE ST. LAWRENCE

By C. W. Mayott

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## New Light on "Interest during Construction"

By W. F. Stanley

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## Why a Demand Charge?

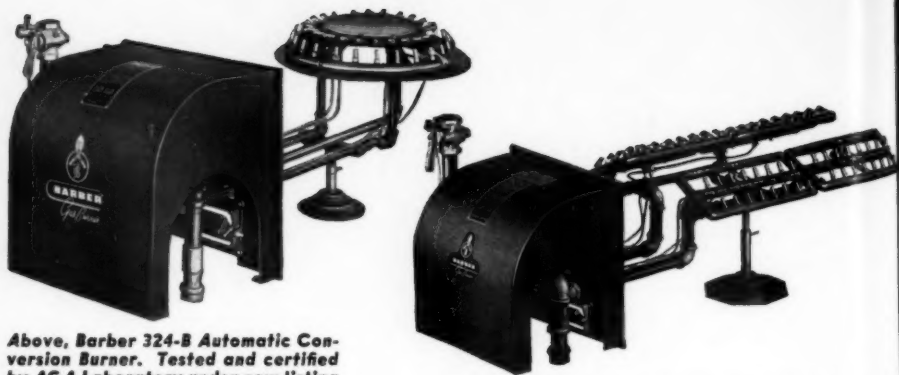
By Henry W. Hills

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## The Company Library—A Tool of Management

By Alma C. Mitchill





Above, Barber 324-B Automatic Conversion Burner. Tested and certified by AGA Laboratory under new listing requirements.

No. 49-113-B Barber Automatic Burner Assembly

## You are Always Safe in Recommending BARBER CONVERSION BURNERS

What are the principal requirements of a really satisfactory gas conversion job?

1. The burner must fit the heating unit. Barber has a sufficient range of sizes, for both round and oblong furnaces or boilers, plus special size adjustment features—to fit correctly all grate dimensions.
2. You must have efficiency in operation. Only thorough combustion will get the most heat from the fuel consumed, at lowest operating cost. Barber's exclusive air-activated jets procure the highest intensity of heat, with a powerful "scrubbing" flame action applied directly to walls of fire-box. "No other burner burns like a Barber."
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# Public Utilities

## FORTNIGHTLY

VOLUME XLVI

SEPTEMBER 14, 1950

NUMBER 6



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PUBLIC UTILITIES FORTNIGHTLY . . . stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.


\$1.00 a Copy  
 26 Issues a Year  
 Annual Subscription Price \$15.00

### PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

Publication Office.....CANDLER BLDG., BALTIMORE 2, MD.  
 Executive, Editorial, and Advertising Offices..MUNSEY BLDG., WASHINGTON 4, D. C.

Entered as second-class matter April 29, 1915, under the Act of March 3, 1879, at the Post Office at Baltimore, Md., Dec. 31, 1936. Copyrighted, 1950, by Public Utilities Reports, Inc. Printed in U. S. A.

Address all communications concerning the FORTNIGHTLY to the publishers at Munsey Building, Washington 4, D. C.



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- 3. Lowered costs**

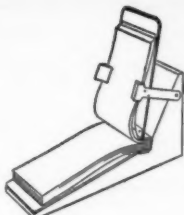
If you would like to talk with one of our representatives about cost-cutting on a "show-me" basis, please phone your local Remington Rand office. There is no obligation, of course.





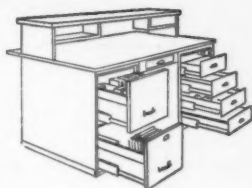
### RE-DISTRICTING OR RE-ROUTING

A trained staff of experienced supervisors is available to work with you in your own office in leveling out the load of Meter Reading and its subsequent operations.



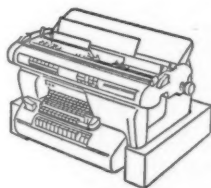
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### VISIBLE EQUIPMENT FOR CUSTOMER RECORDS

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## Pages with the Editors

**I**N any war emergency, the utilities must be prepared to carry a bigger load at heavier operating cost, including taxes. The utilities must serve, not only Mars, but also the home front. Subsequent changes will appear in such areas as the demand factor, sales and promotion, and other conventional activities of gas, electric, telephone, and other public services. It is not an easy transition to switch from a promotional consumers market to one where capacity and demand are the constant questionmarks with every new service request filed.

FORTUNATELY, the dual load imposed by war upon utility services is not a matter of superimposing war industries entirely upon a peacetime load. The electric power industry demonstrated that during World War II. In many cases, it is simply a question of serving the same industrial consumer, who is turning his civilian enterprise over to war production purposes.

SOME Federal officials, who issued alarming statements about power shortages at the outbreak of World War II, made the error of assuming that the war industry load would be mostly piled on top of the previous peacetime service load. There were industry officials, however, who rightly determined that a large portion of the change would be substitution.

JUST the same, all utility services must look forward to significant shifts in the character of their service commitments. There may have to be corresponding changes in rate structures. New business promotion may have to be studied; and sales efforts carefully planned.

UTILITY industries have been living with these problems long enough to have developed helpful experience. Two world wars and a major economic depression certainly provide enough background to promote the long view, and the steady

SEPT. 14, 1950



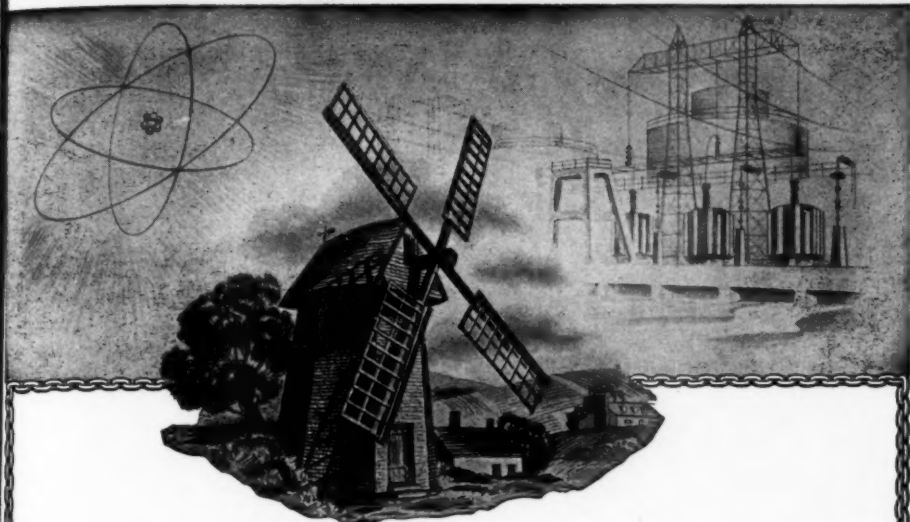
HENRY W. HILLS

hand, at the managerial tiller. It may be found that certain changes of economic circumstances, which seem as new as freshly laid eggs, already have been provided for, in well-planned rate structures of years' standing.

\* \* \* \*

**R**ECENTLY there appeared in this magazine a critical analysis of a so-called "demand charge" widely used in public utility rate structures and approved by regulatory authorities. In this issue (beginning on page 349) we present a well-qualified article which justifies the so-called "demand charge," especially in the case of industrial rates for an electric utility's customers, which has been questioned from the regulatory point of view. Here is a discussion of the background and purpose of the demand charge, which is the result of considerable experience and original thinking by some of the best minds in the industry.

HENRY W. HILLS, author of this article "Why a Demand Charge?" is a well-known electrical engineer of Reading, Massachusetts. He was born and educated in that state, graduating from the



## Has your financing program kept pace with the times?

• Quite a change from the stately old windmill to a modern power plant. And from the capital markets of former years to those of today.

Has your organization a comprehensive program geared to present-day financial conditions? Are your financing methods and your approach to the financial

community keeping up-to-date?

If you would like to discuss these questions or others in connection with your business, the specialists in our Public Utilities Department will welcome the opportunity. They are fully qualified to give the expert guidance which may be of assistance to you.

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*Company*

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NEW YORK 15, N. Y.

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RICHARD H. WEST, *President*

Public Utilities Department

TOM P. WALKER—*Vice President in Charge*

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Massachusetts Institute of Technology (BS, '20) and licensed as an electrical engineer in that state. He started his career as a student engineer at the Westinghouse Electric & Manufacturing Company East Pittsburgh plant; did a tour of duty with the Southern California Edison Company, 1921-24. He then served in his professional capacity with the Philadelphia Electric Company (1925-30); Consolidated Gas, Electric Light & Power Company of Baltimore (1931-36); and joined his present firm—Jackson & Moreland—in 1936. During World War II, he served as a Lieutenant with the U. S. Navy in charge of harbor defense in the southern Pacific theater.

\* \* \* \*

**C.** W. MAYOTT, author of the leading article in this issue, dealing with the electric power supply situation in the Niagara-St. Lawrence area, is another veteran electrical engineer of New England. He is now assistant to the president of the Hartford Electric Light Company, with nearly four decades of service with that organization. He first joined up in 1911, following his graduation from Rensselaer Polytechnic Institute.

MR. MAYOTT may be better known to public utility people in other areas as a result of his distinguished service during World War II as national power coordinator for the War Production



W. F. STANLEY

SEPT. 14, 1950

Board. He was called to this special service in 1941 by J. A. Krug, then administrator of the U. S. Office of Production Management. Prior to that time, he had been, for twenty-one years, manager of the Connecticut Valley Power Exchange—a pool of northeastern electric plants formed to coordinate power sources in five states.

\* \* \* \*

**T**HE article on the troublesome question of "interest during construction" (which begins on page 340) is the product of W. F. STANLEY, vice president, secretary, and treasurer of the Southwestern Public Service Company of Dallas, Texas. MR. STANLEY has over a quarter of a century's experience with problems of corporate accounting and finance. From 1931 to 1939 he was associated with a prominent firm of public utility engineers and managers. During 1939 he became secretary and treasurer of General Public Utilities, Inc., predecessor of Southwestern Public Service Company. He was active in connection with the corporate plans of integration which set up this organization system as it is today.

\* \* \* \*

**A**LMA C. MITCHILL, librarian, Public Service Electric & Gas Company, is well-known in special library circles. In the Special Libraries Association she has held many offices, including national president (1938-1940). When the association's New Jersey chapter was organized in 1935 MISS MITCHILL was its first president. She was 1950 national convention chairman of the SLA convention held in Atlantic City last June. She is also editor (since 1941) of the association's official journal *Special Libraries*. She has written many articles on library technique and participated in the preparation of several library brochures, including "A Brief for a Corporation Library," published by the association in 1949.

THE next number of this magazine will be out September 28th.

*The Editors*



**Time-saving,  
money-saving  
idea for you**

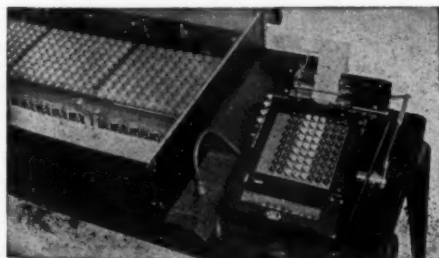


*Courtesy Bettmann Archives*

**S**OME folks laughed when a girl sat down at this typewriter "piano" and began to tickle the keys.

But this 1871 Sholes typewriter—one of the first practical machines—started a revolution in the status of the fair sex, and in business as well. For the typewriter proved it could help get the work done neatly, and in a fraction of the time it formerly took.

Ever since those early days, more and more specialized machines have been saving time and money. An unusual machine that should be of particular interest to you is the Bill Frequency Analyzer illustrated here.



It can help give you an accurate picture of your consumers' usage situation within a short time. It analyzes as many as 200,000 bills in a day. It turns out work at only  $\frac{1}{2}$  the cost of having the analysis made in *your* offices.

If you are not now using this remarkable service, we suggest you . . .

**Send for FREE booklet**

"The One-Step Method of Bill Analysis" will give you all further details. Write for it today.

**Recording and Statistical  
Corporation**

100 Sixth Avenue,

New York 13, N. Y.

# Coming IN THE NEXT ISSUE



## **Sic Gloria Transit Radio**

Another gay title for this article on transit radio by George W. Keith, Cincinnati professional writer, might be "The Music Goes Round and Round." It is a down-to-earth description of the progress and pitfalls of a supplementary service on the nation's streetcar and bus lines which is gaining wider acceptance every day.

## **Pensions for Public Utility Employees**

The public utility industry has established a good record, as well as a valuable background, for sound judgment in developing and improving pension plans. Present benefits for employees under most utility company plans compare most favorably with those now being negotiated in many industrial concerns. Roland S. Child, associate manager, employee relations, Central Hudson Gas & Electric Corporation, and member of the AGA Personnel Committee, has written an over-all review of public utility pension plans and their future prospects.

## **Transit Ills Need Drastic Pills**

Twenty years ago municipal ownership seemed to be the answer to problems of moving the masses in our American cities, but more recent events have shown that the basic economic difficulties go much deeper. Herbert Bratter, business author, shows how the transit industry, whether publicly or privately operated, is faced with the need of changing well-established patterns of public thought and conduct.

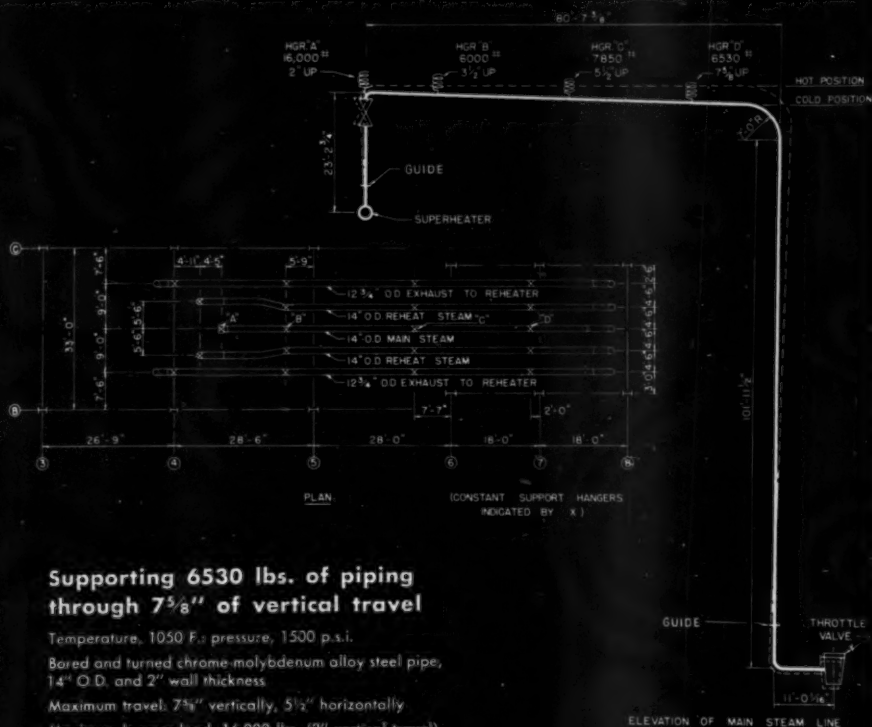
## **Business Is a Good Neighbor, Too**

From the standpoint of community life, a public utility organization is more than a mere purveyor of good service at reasonable rates. In most instances, it also makes a most important contribution to the life of the community by way of livelihood for numerous permanent citizens of the finest type and their families. It is an important builder and buyer of all sorts of supplies, equipment, and other services. Most important, it takes an active interest in the social needs and problems of the community. K. P. Wood, assistant vice president, American Telephone and Telegraph Company, gives us an account of this really "good neighbor" policy which is so often taken for granted, if not overlooked.



**Also . . .** *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.*





## **ONLY a Grinnell Constant-Support Hanger solves this problem easily, practically**



Provides constant support to piping subject to vertical movement — in all hot and cold positions. Maintains full safety factor in supporting high temperature, high pressure piping. Non-resonant and energy absorbing. Mass-produced from standard precision parts. Individually calibrated for each installation. Load-adjustment features incorporated into design. Models to meet entire range

of load-travel specifications. Minimum headroom required.

Believing that a good piping job is too important to be jeopardized by improvised or inadequate pipe hangers, Grinnell has developed a complete line of stock hangers and supports for every piping need from a simple water pipe to a high pressure, high temperature steam line. Write for Catalog 10-D.



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# Remarkable Remarks

*"There never was in the world two opinions alike."*

—MONTAIGNE

ROBERT E. WILSON  
*Chairman, Standard Oil Company  
(Indiana).*

"Not only do heavy excess profits taxes destroy incentives but they encourage waste and inefficiency."

DONALD R. RICHBERG  
*Washington attorney.*

"It is no defense of national Socialism to assert that a complete socialization of our political economy might at least make it financially possible to maintain an orderly society under rigid control of a national police."

LOUIS BROMFIELD  
*Author.*

"If any business, industry, or farm were run as our government is being run it would be bankrupt within six months. The only thing which saves our government is taxes, taxes, taxes, and now it is beginning again to ask for more."

CHARLES E. WILSON  
*President, General Electric  
Company.*

"American industrial society has achieved many noteworthy things, but there is one thing that it has not accomplished. It has never yet produced enough of its products for distribution at a fair price to the people who need them."

GEORGE A. DONDERO  
*U. S. Representative from  
Michigan.*

"If the philosophy of public ownership, control, and distribution of electric power is sound then the philosophy on which this country grew great must be wrong. The government should sell the power at the bus bar and let private enterprise do the rest."

BERNARD BARUCH  
*Financier.*

"A man who is free can mold his life, just as a nation that is free can mold its life—even control, to an extent, the building forces of his body and brain just as we can today control great forces of nature in electronics, dynamics, and atomic energy."

RAYMOND MOLEY  
*Columnist.*

"A great deal might be conserved by suspending all public works projects such as dams, power developments, and irrigation except those that are so near completion as to have a bearing on defense activities. Many of these expensive projects would not in any event be completed for years. They require materials that are already in short supply. And, incidentally, they should not be financed out of current government income in any event, but out of bond issues."



## After 24 years' service, another Exide, the new... **EXIDE-MANCHEX BATTERY**

New installation of 60-cell DME-13 Exide-Manchex Battery which replaced older Exide batteries, which served a substation in southeastern Wisconsin for 24 years.

In 1925, a utility in southeastern Wisconsin installed a 60-cell EMG-7 Exide Battery. Before being replaced in 1949 by the new Exide-Manchex, it had given nearly a quarter-century of continuous service.

The new Exide-Manchex Battery operates a number of 34.5 KV oil circuit breakers and provides emergency lighting in the attended substation. Indicating lamps are on each circuit.

For positive operation of switchgear, plus an adequate and uninterrupted supply of current for all your stationary battery requirements, use Exide-Manchex Batteries. They assure you dependable performance, long battery life and low-cost maintenance.

**THE ELECTRIC STORAGE BATTERY CO.**  
Philadelphia 32

*Exide Batteries of Canada, Limited, Toronto*

### You get all these in **EXIDE-MANCHEX BATTERIES**

**The exclusive, long-life  
manchester positive plate.**

**Slotted plastic separators,  
impervious to chemical  
and electrical reaction.**

**Plastic spacers for plate  
alignment.**

**Latest development in molded  
glass jars.**

**Heavy terminal posts with  
copper inserts for extra  
conductivity.**

"Exide" and "Manchex"  
Reg. Trade-marks U.S. Pat. Off.

## **1888...DEPENDABLE BATTERIES FOR 62 YEARS...1950**

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## REMARKABLE REMARKS—(Continued)

EDITORIAL STATEMENT  
*Chicago Journal of Commerce.*

"In 1927 the cry was to 'break up the New York Yankees.' Today they want to break up A&P, AT&T, the Big Four Packers, Alcoa, General Motors, and DuPont."

WILFORD I. KING  
*Chairman, Committee  
for Constitutional Government.*

"Every member of Congress needs to be ever on guard against those sly, scheming collectivists who hope to use the war emergency as a cloak under which to fasten Socialism or Fascism on our nation."

AUSTIN KIPLINGER  
*Columnist.*

"Total taxes in this country now take approximately one-fourth of the national income. . . . such an expenditure is dangerous to the economy and to the personal interests of the American people. But when the nation undertakes to spend more, it must pay for what it spends. If we Americans are not willing to pay the taxes, perhaps we should not undertake to defend ourselves. Something for nothing is still a myth—in defense as it is in peace. If we want defense, we'll have to pay for it."

BENJAMIN F. FAIRLESS  
*President, U. S. Steel Corporation.*

"What is wrong with a competitive system under which we in America have made more progress in fifty years than the rest of the world combined? What—short of sheer economic insanity—would prompt us to trade our streamlined, free-wheeling competitive system for some outmoded, old-world jalopy even if the idea comes from high places and is all dressed up in a new coat of paint? I know of no issue confronting the American people today which will affect their future welfare so vitally."

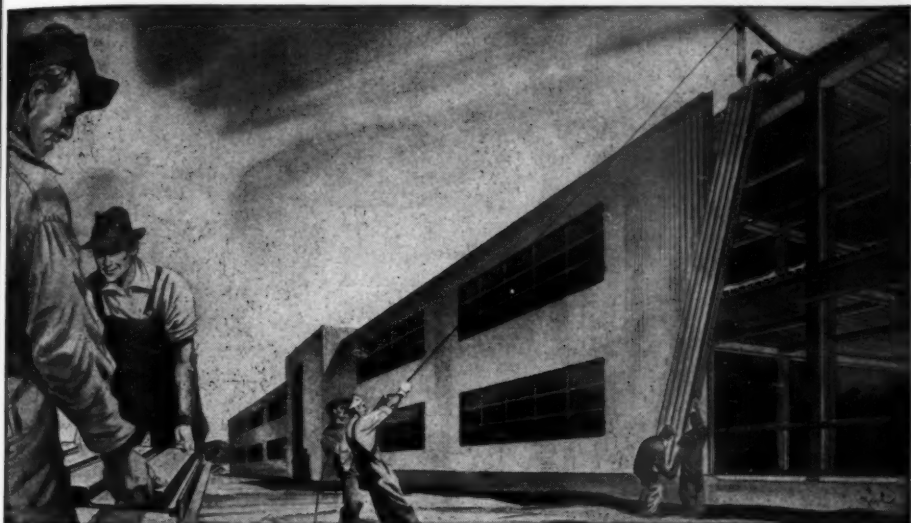
DAVID E. LILIENTHAL  
*Former chairman, Atomic  
Energy Commission.*

"There exists in influential circles in this country a school of nonthought, which I would call the bomb-happy boys. . . . If we follow the bomb-happy boys, the dough-head defeatists, we will make a mountainous and almost a fatal error for our people. I am not trying to sugar-coat, soft-pedal, or spoon-feed the American people about the destructive side of atomic energy, but I would remind you of the passage in Deuteronomy that goes like this: 'I set before thee this day, life and good and death and evil, therefore choose life.'"

*Excerpt from statement by the  
Western Tax Council.*

"Too many of our current graduates are totally ignorant of the consequences of our present-day deficit financing, the graduates do not realize that the growing Federal debt is an extra burden on every young man facing a career and a family. Nor do they realize that the current high Federal taxes resulting from irresponsible Federal spending cut into everybody's take-home pay and reduce the general standard of living. It is a mistake to call a college graduate an educated man unless he understands the long-run significance of continued and persistent Federal deficits."

what we really make is time!



**It's faster to hang a wall than to pile it up...**

Little blocks, say 2" x 4" x 8", don't pile up very fast.

We hang walls up in sizable panels.

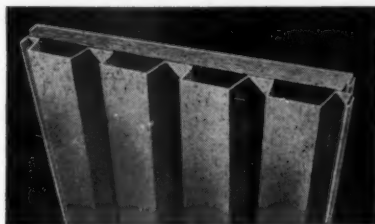
And that is an easy way to understand why Robertson's real product is *time*.

We make walls that are hung in place. We make them complete with insulation when the panels are delivered. We engineer them piece by piece in advance at the factory. We put expert crews on the job to place them.

We make time, now, when time is the essence.

We save days and weeks in finishing a building for use, because years have been put into the development of these unique skills.

*Quick* is the word we practice.



Q-Panels are fabricated from Galbestos, aluminum, stainless steel, galvanized and black steel in lengths up to 25'.

Q-Panels, 3" in depth with 1 1/2" of incombustible insulation, have a thermal insulation value superior to that of a 12" dry masonry wall with furred plaster interior. A single Q-Panel with an area of 50 sq. ft. can be erected in nine minutes with a crew of only five men, and twenty-five workmen have erected as much as an acre of wall in three days.

Q-Panel construction is quick, dry, clean, and offers an interesting medium of architectural expression.

**H. H. ROBERTSON CO., PITTSBURGH, PA.**

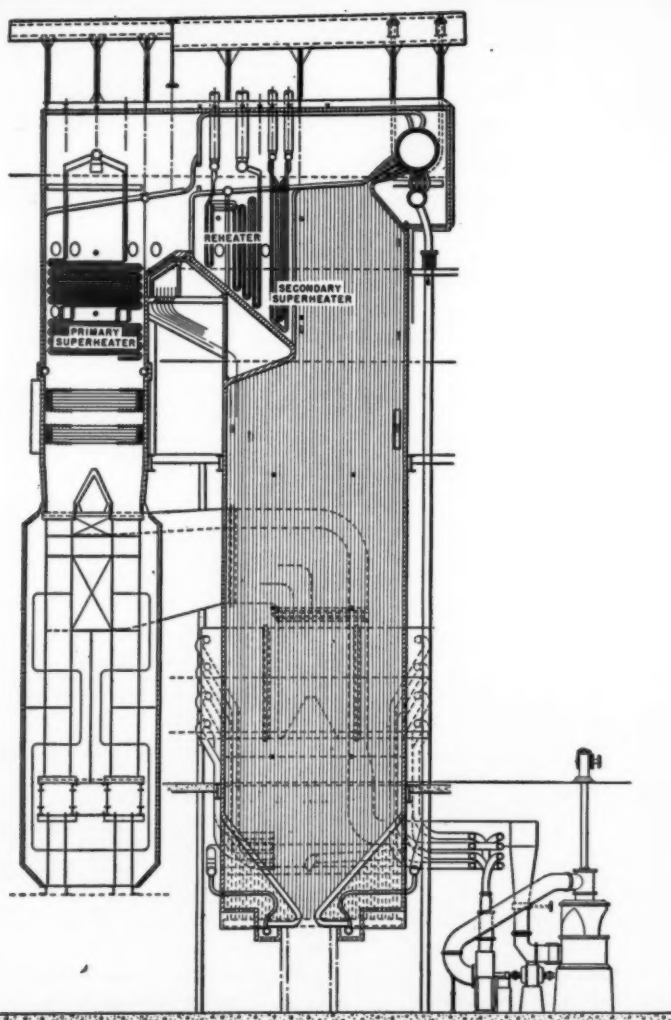
2424 Farmers Bank Building  
Pittsburgh 22, Pennsylvania



Offices in 50 Principal Cities  
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# C-E *REHEAT* BOILERS



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# MERAMEC STATION

## UNION ELECTRIC COMPANY OF MISSOURI

The C-E Unit illustrated here is now in process of fabrication for the Meramec Station of the Union Electric Company of Missouri at St. Louis.

The Unit is designed to serve 125,000 kilowatts of electric generating capacity at a throttle pressure of 1250 psi, with primary steam temperature at 950 F, reheated to 950 F.

This steam generator is of the radiant type with a reheater section located between the primary and secondary superheater surface. A finned tube economizer section is located below the rear superheater section, and a tubular type air heater follows the economizer.

The furnace is fully water cooled, using closely spaced plain tubes. It is of the basket-bottom type, discharging to a sluicing ash hopper.

Pulverized coal firing is employed, using bowl mills and tilting tangential burners. Arrangements are made to burn natural gas when and as desired.

B-428A



## COMBUSTION ENGINEERING— SUPERHEATER, INC.

200 MADISON AVENUE • NEW YORK 16, N. Y.

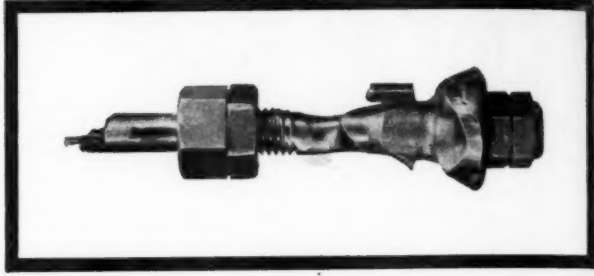
ALL TYPES OF BOILERS, FURNACES, PULVERIZED FUEL SYSTEMS AND  
STOKERS; ALSO SUPERHEATERS, ECONOMIZERS AND AIR HEATERS

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# Could this happen in your town?

**T**HAT chewed-up valve stem at the right may look relatively unimportant. But its failure in a gas pressure-regulator disrupted an entire town's gas supply.

The minute particles of dust or scale that cause such destructive erosion may be invisible, but they are present always in unconditioned gas. Get rid of such expensive damage to distributing and metering equipment by installing Blaw-Knox Gas Cleaners at strategic points in the system. They are guaranteed to deliver clean, dry gas in any volume from 300 thousand to 300 million ft. per day . . . Write for Bulletin 1869.



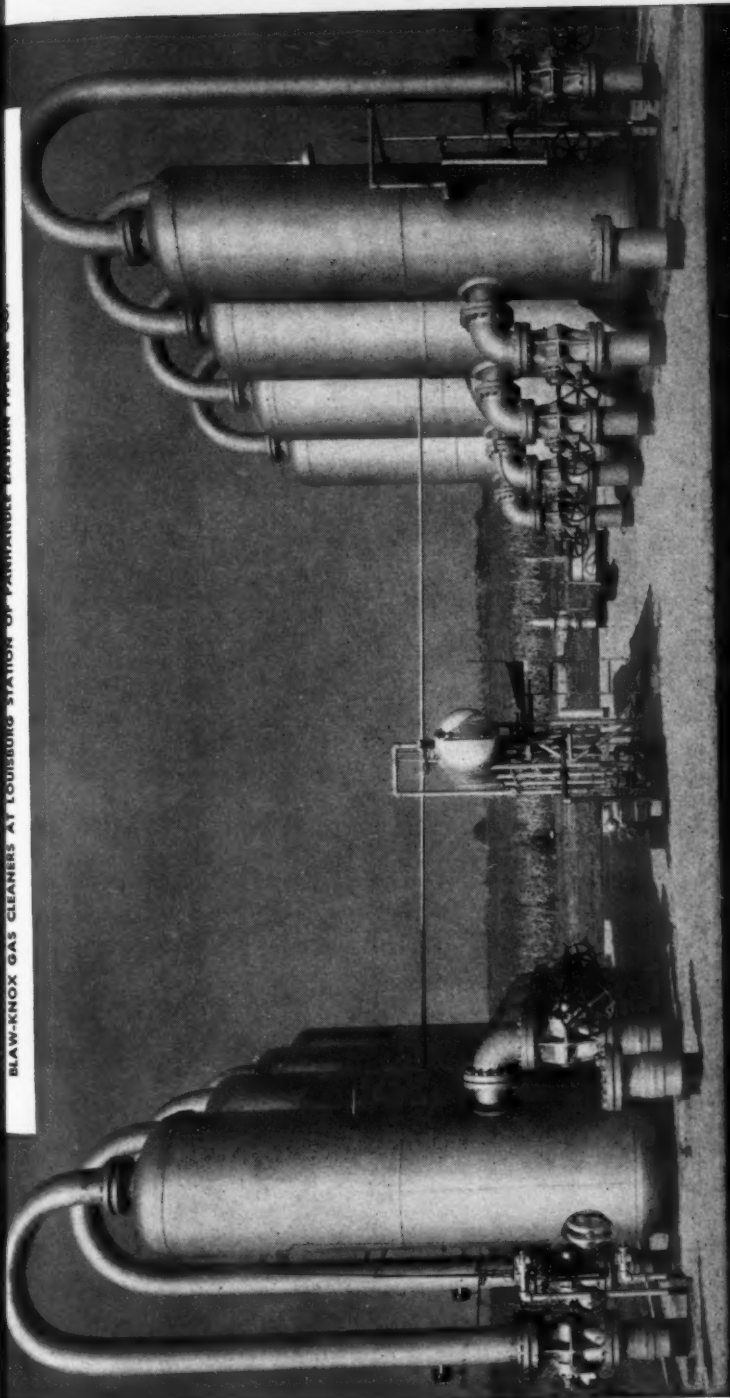
**BLAW-KNOX DIVISION of Blaw-Knox Company**

**2110 Farmers Bank Bldg., Pittsburgh 22, Pa.**

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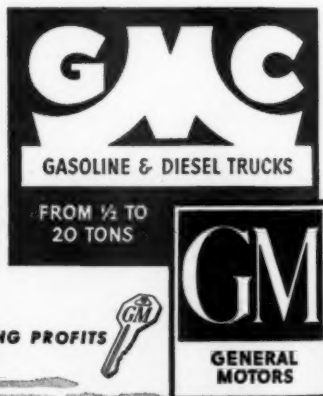
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LEADS IN NET HORSEPOWER	YES	YES	NO	NO	YES
LEADS IN SUSTAINED TORQUE	YES	NO	NO	NO	NO
FULL-PRESSURE LUBRICATION of all main bearings and piston pins	YES	NO	NO	NO	YES
SYNCHRO-MESH TRANSMISSION with Cushion Disc Clutch	YES	YES	Some Models	YES	YES
Easy-Turn Recirculating BALL-BEARING STEERING GEAR	YES	YES	NO	NO	NO
SEPARATELY MOUNTED FENDERS, GRILLE AND RADIATOR for economical repair	YES	NO	NO	NO	NO
TORSIONAL DAMPENER for engine smoothness	YES	YES	YES	NO	YES
BUILT-IN RADIATOR EXPANSION TANK — prevents coolant loss	YES	NO	NO	NO	NO
DOUBLE-WRAPPED FRONT SPRING EYES for front axle stability	YES	YES	Some Models	NO	NO
TOCCO-HARDENED CRANKSHAFT Dynamically balanced	YES	NO	NO	NO	NO
STEEL-BACKED AIRPLANE TYPE MAIN AND ROD BEARINGS	YES	NO	NO	NO	NO

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# Utilities Almanack



## SEPTEMBER



14	T <sup>h</sup>	<p>† Michigan Independent Telephone Association begins convention, Lansing, Mich., 1950.</p> <p>† Midwest Gas Association begins gas school and conference, Ames, Iowa, 1950.</p>
15	F	<p>† National Petroleum Association ends meeting, Atlantic City, N. J., 1950.</p> <p>† Northwest Public Power Association ends convention, Portland, Ore., 1950.</p>
16	S <sup>a</sup>	<p>† American Water Works Association, Ohio Section, will hold meeting, Columbus, Ohio, Sept. 28, 29, 1950.</p>
17	S	<p>† American Bar Association begins annual convention, Washington, D. C., 1950.</p> <p>† Controllers Institute of America begins annual meeting, Chicago, Ill., 1950.</p>
18	M	<p>† American Transit Asso. begins executive conference, Chicago, Ill., 1950.</p> <p>† National Butane-Propane Association begins meeting, Cleveland, Ohio, 1950.</p> 
19	T <sup>u</sup>	<p>† American Society of Mechanical Engineers begins meeting, Worcester, Mass., 1950.</p> <p>† Pennsylvania Electric Association begins meeting, Pittsburgh, Pa., 1950.</p>
20	W	<p>† American Gas Association ends accident prevention conference, Washington, D. C., 1950.</p>
21	T <sup>h</sup>	<p>† Rocky Mountain Telephone Association begins annual convention, Salt Lake City, Utah, 1950.</p>
22	F	<p>† Public Utilities Association of the Virginias begins meeting, White Sulphur Springs, W. Va., 1950.</p>
23	S <sup>a</sup>	<p>† Maryland Utilities Association ends fall conference, Virginia Beach, Va., 1950.</p>
24	S	<p>† Institute of Traffic Engineers begins convention, New York, N. Y., 1950.</p>
25	M	<p>† Association of National Advertisers begins meeting, Chicago, Ill., 1950.</p> <p>† National Electronic Conference begins Chicago, Ill., 1950.</p> 
26	T <sup>u</sup>	<p>† Pennsylvania Water Works Association begins meeting, Atlantic City, N. J., 1950.</p>
27	W	<p>† Canadian Electrical Manufacturers Association begins annual meeting, Niagara Falls, Ontario, Canada, 1950.</p>



## Towers in a Storm



Photo by Herold M. Lowder

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# Public Utilities

## FORTNIGHTLY

VOL. XLVI, No. 6



September 14, 1950

## Northeastern Area Power and The St. Lawrence

*For many years the reason assigned for Federal financing of the proposed St. Lawrence hydro power project was the inability of private industry to cope with a program of such magnitude. Here is an analysis of what private industry already has done and what it is prepared to do in the future in this area without cost to the taxpayer.*

By C. W. MAYOTT\*

ASSISTANT TO THE PRESIDENT, HARTFORD ELECTRIC  
LIGHT COMPANY

FOR thirty years or more, the value of the proposed St. Lawrence development has been discussed with great vigor, much heat, and much of the time with a minimum of light. The project is purported to be a dual purpose hydro and navigation project. However, the relative importance of hydro was clearly shown when the

suggestion was made a short time ago to construct the hydro project first. The navigation proponents quite frankly stated that if the hydro project was once completed, it would be almost impossible to get the navigation project approved. Various conclusions can be drawn from this, but as it is not a part of the subject I am discussing, I shall follow it no further.

I shall confine my comment entirely

\*For additional personal note, see "Pages with the Editors."

## PUBLIC UTILITIES FORTNIGHTLY

to the hydro phase of the discussion. Much of the discussion on this phase of the subject has shown a disregard or a misconception of its relative importance. Essentially, the proposed St. Lawrence hydro development is just another block of power capacity. It is true that it is the largest block of undeveloped hydro in the Northeast, but there are four New York state steam plants which have a capacity close to, or greater than, the United States share of this Niagara power.

The estimates of the firm power from the St. Lawrence have varied from 500,000 kilowatts to 700,000 kilowatts. Table I (page 335) shows the variation from month to month and over the years.

**A**NY output greater than its actual firm power or capability to carry the system's load without steam reserves would be of a temporary nature and must have steam plants standing by to pick up the load when sufficient water is not available. Five hundred and seventy thousand kilowatts has been the firm capability used by a number of experienced persons. When all factors are given due consideration including Table I and the navigation requirements, the figure 570,000 kilowatts is probably very realistic. I shall, therefore, use it for this discussion.

Claims have been made that this power would help carry the load of Chicago, Pittsburgh, New York, and Boston. However, it takes little study of the facts to show how fallacious such claims are.

First let us see how the power companies are integrated. The interconnected transmission lines in New York state have been quite adequate to han-

dle the large loads in that state and also to make maximum economies in construction and operation. The high tension transmission network is connected to the Ontario Hydro-Electric systems at Niagara Falls and crosses the length of New York state with tap lines up to the Niagara river. From Albany, lines of really high capacity run east into New England and south into New York city, with a minor tap into Connecticut from near Poughkeepsie. New England is well interconnected with a high tension transmission grid tying all of the principal power plants and cities into one network. To the south, New York is connected with the large interconnected systems of eastern Pennsylvania, New Jersey, Delaware, Maryland, and the District of Columbia. The operation of the systems in New York state is quite effectively coordinated, as it is with the New England systems which within themselves are probably as well coordinated as any area in the world.

**S**ECOND, let us see how this project fits into the New York state picture. For this purpose I am showing Table II (page 336) which is the summation of reports of all the power companies of New York state as presented to the power survey committee of the Edison Electric Institute for their last semiannual report of April, 1950.

Inasmuch as New York state has approximately 1,200,000 kilowatts of hydro capacity (it is the sixth state in the order of hydro development per square mile), we show both the median hydro conditions and adverse hydro conditions.

This table shows the fallacy of considering any of this power as be-

## NORTHEASTERN AREA POWER AND THE ST. LAWRENCE

ing available to any but the adjacent New York area. As shown in the table, the proposed St. Lawrence hydro would take care of approximately three years' growth of New York state. If combined with New England, it would take care of about two years' growth. Inasmuch as New England has been claimed to need this power and to be within the area of its purported benefits, I will give Table III (page 337) to show the New England situation. This is the report of the Electric Coördinating Council of New England as presented to the power survey committee of the Edison Electric Institute for its latest (seventh) semiannual report of April, 1950.

This table shows how well New England is prepared to carry its load both now and in the future. It is not dependent upon St. Lawrence. As a matter of fact, there is little logical justification for any appreciable amount of this power getting into New England. The Federal Power Commission recognizes this fact, as is shown in its Release No. 4332 dated

July 11, 1949, where the Federal Power Commission staff is quoted as follows:

Considering the possibility of New England states receiving power from the St. Lawrence project, the FPC staff said that the amount of power that might be available to New England would be relatively small when compared with the region's total power requirements. . . .

With respect to the cost of St. Lawrence power, the staff said that . . . the effect on the region's over-all power costs would be negligible because of the low ratio of St. Lawrence power that would be available.

Physical delivery of power from the St. Lawrence into New England would require duplicate equipment and uneconomical operation.

It may be of interest to give a very rough estimate of the possible effects of this project on power costs. Of course, there is the possibility of the output of this project costing more than it would from steam. Let's assume that the power cost nothing. Over half



TABLE I

### THE ST. LAWRENCE SEAWAY AND POWER PROJECT

*From reports prepared by government agencies for a subcommittee of the Senate Foreign Relations Committee on questions raised during the debate on SJRes 111 (80th Congress, 2nd Session)*

Month	Minimum Water Supply Year, 1934 Average Output	Average Water Supply Year, 1893 Average Output	Maximum Water Supply Year, 1861 Average Output
January .....	509,000	553,000	596,000
February .....	501,000	556,000	616,000
March .....	541,000	597,000	693,000
April .....	592,000	715,000	857,000
May .....	607,000	797,000	877,000
June .....	614,000	872,000	911,000
July .....	606,000	842,000	904,000
August .....	599,000	786,000	891,000
September .....	579,000	774,000	870,000
October .....	570,000	749,000	855,000
November .....	559,000	717,000	846,000
December .....	555,000	638,000	774,000

## PUBLIC UTILITIES FORTNIGHTLY

the cost of power to a customer is in taking the power from the powerhouse to his service. By the time the St. Lawrence project could be built, the power capability for New York state would be about 9,000,000 kilowatts. The firm capacity of St. Lawrence would, therefore, be about 7 per cent of the capability or less than  $3\frac{1}{2}$  per cent of the cost factor to the customer, if the government paid all the costs out of taxes.

Let us see what the general situation has been. Previous to World War II, this whole northeast area, as well as most areas of the United States, was well able to take care of its obligations to the public and carry the whole load of the area with a high standard of service. J. A. Krug, who was principally responsible for power during the war, stated that "Power was never too little or too late during the war." Following the war, the unprecedented increase in load materially reduced the reserve margin before equipment could be obtained and new stations built to catch up with the demand. For quite a period after the war, the electric equipment manufacturers were so

loaded with orders that deliveries of boilers, turbines, and most other equipment took three years or more. This backlog of orders, as is shown in the seventh semiannual report of the Edison Electric Institute, has now been reduced to two years or less. By this great effort on the part of the power companies, the manufacturers, and the construction companies, the installation of new equipment has been at a materially greater rate than the load growth.

As shown in Tables II and III, this is equally true for New York state and New England. In both these areas, the narrow reserve margins of 1947 and 1948 have been increased until this year the whole area is in very good condition. The margin of reserves for New York state, which this year equals the firm capacity of the proposed St. Lawrence, will increase to about 1,000,000 kilowatts by 1953. For New England, the situation is even better. This year the New England reserves will amount to over 23 per cent and will be even greater in 1953. (In



TABLE II  
POWER SUPPLY, PEAK LOAD, AND MARGINS FOR RESERVES  
NEW YORK STATE

	In Kilowatts					
	1948	1949	1950	1951	1952	1953
	Actual		Expected and Planned for			
<i>If Median Hydro Conditions Prevail</i>						
Capability of Generating						
Equipment .....	5,520,000	5,667,000	6,146,000	6,397,000	6,845,000	7,175,000
Yearly Peak Load .....	5,022,000	5,036,000	5,482,000	5,716,000	5,932,000	6,164,000
Margin of Reserves .....	498,000	631,000	664,000	681,000	931,000	1,011,000
Per Cent Margin .....	9.9	12.5	12.1	11.9	15.4	16.5
<i>If Adverse Hydro Conditions Prevail</i>						
Capability of Generating						
Equipment .....			6,039,000	6,290,000	6,738,000	7,068,000
Yearly Peak Load .....			5,482,000	5,716,000	5,932,000	6,164,000
Margin of Reserves .....			557,000	574,000	806,000	904,000
Per Cent Margin .....			10.2	10.0	13.6	14.7

# NORTHEASTERN AREA POWER AND THE ST. LAWRENCE



TABLE III  
INTERCONNECTED NEW ENGLAND (EXCLUDING MAINE) CAPABILITY,  
PEAK LOAD, AND ENERGY DATA

	In Kilowatts					
	1948	1949	1950	1951	1952	1953
	<u>Actual</u>		<u>Expected and Planned for</u>			
<i>If Median Hydro Conditions Prevail</i>						
Capability of Generating						
Equipment .....	2,885,000	3,258,000	3,491,000	3,733,000	3,843,000	3,918,000
Yearly Peak Load .....	2,589,000	2,684,000	2,823,000	2,929,000	3,045,000	3,153,000
Margin of Reserves .....	296,000	574,000	668,000	804,000	798,000	765,000
Per Cent Margin .....	11.4	21.4	23.7	27.4	26.2	24.3
<i>If Adverse Hydro Conditions Prevail</i>						
Capability of Generating						
Equipment .....			3,455,000	3,695,000	3,805,000	3,880,000
Yearly Peak Load .....			2,823,000	2,929,000	3,045,000	3,153,000
Margin of Reserves .....			632,000	766,000	760,000	727,000
Per Cent Margin .....			22.4	26.2	25.0	23.1

1. Capabilities are without deductions for reserves or outages.
2. Capabilities and peaks are for December of each year when the annual peak is expected to occur.
3. As Maine is not operated as part of the large interconnection of New England, it is not included in this report.

the Northwest, where the government has gone in for public power production in a really big way, as the President wants New England to do, the National Security Resources Board report shows a margin for 1950 of .1 per cent of 1 per cent on an average hydro basis.) The reserves in New England are now above the firm capability of the proposed St. Lawrence development.

Many of the national statistics are on the basis of the northeast region. This takes in not only New England and New York but also eastern Penn-

sylvania, New Jersey, Delaware, Maryland, and the District of Columbia. This whole area has at times been classified as needing St. Lawrence. A brief tabulation on a median hydro basis for this area is shown, Table IV.

This shows how excellent the power situation is for this whole area. The previous tables combined with this one show how well each section is prepared to meet its obligations. It is quite clear from Table IV (page 338) that the St. Lawrence project would not take care of one year's growth of the region. Its claimed capability is less



## PUBLIC UTILITIES FORTNIGHTLY

than one-quarter of the present margin of reserves. If normal development is not interfered with, it will be less than one-fifth of the reserves at the time it could come into operation.

It is estimated that it will take from seven to ten years to build the St. Lawrence project. In the interim, the equivalent to eight other plants the size of St. Lawrence must be built to take care of the load growth in the Northeast. So basically St. Lawrence is just another powerhouse and should be considered on that basis. There is no doubt that these other powerhouses or their equivalent will be built and the margin of reserves maintained if there is no threat of governmental persecution through government subsidies to preference customers, with duplication of lines, etc. We have but to look at the Pacific Northwest to see how government persecution has retarded development. Such a threat in the Northeast can prevent the power companies from installing the new capacity they would like to install and would probably reduce the desirable margin of reserves by much more than the total firm capability of the proposed St. Lawrence development.

So far I have shown how well the power companies in the area have fulfilled their obligation and the relative importance of the St. Lawrence development to the power supply. If

competitive with fuel-burning plants, there are other factors to consider.

According to the congressional report, the "St. Lawrence Seaway and Power Project," dated March 2, 1949, the estimate of cost for separate power projects, International Rapids section of the St. Lawrence river, would be \$451,000,000 — one-half of which would be chargeable to the United States. This item does not include interest during construction and various other items which would bring the total cost much above the estimate. However, even that amount is almost three times the cost of constructing equivalent steam capacity. The project would therefore require approximately three times the man power and materials needed by alternate fuel-burning equipment.

THE claimed justification for the St. Lawrence project is the purported saving. In estimating the savings to be made by the project, it is assumed to be tax free. A nominal interest rate is charged. Interest during construction is not included and many other items are disregarded. On the other hand, the cost of this project is compared with steam plants with all legitimate charges included. The following statement was made by William F. Uhl in *Electrical World*, June 30, 1949: "If, as experience indicates, projects built by the government cost

TABLE IV  
NORTHEAST REGION  
In Kilowatts

	1948	1950	1953
Capability of Generating Equipment .....	14,411,000	16,813,000	19,366,000
Yearly Peak Load .....	13,090,000	14,298,000	16,207,000
Margin of Reserves .....	1,321,000	2,515,000	3,159,000
Per Cent Margin .....	10.1	17.6	19.5



## NORTHEASTERN AREA POWER AND THE ST. LAWRENCE

more than those privately built, the finances must have a greater capital expenditure and the difference in annual cost for the government and private financing can easily be lost." These probabilities are not included in the estimates.

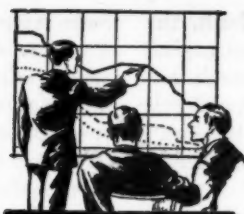
In making the comparison between the Federal hydroelectric proposals and private steam installations, taxes are blandly swept aside for the Federal projects as if a magic wand eliminated these taxes. They are not eliminated but are just transferred to other taxpayers. The purported saving is therefore entirely fictitious and deceiving. As an indication of what this tax responsibility is, we will first take the Hartford Electric Light Company, which with a utility plant investment of just over \$50,000,000 made a tax payment of over \$2,500,000 in 1949. Putting it in another way, from Edison Electric Institute statistics of April 10, 1950, the total tax percentage of the operating revenue for 1949 amounted to 19 per cent. For the state of Connecticut, the total taxes amounted to 3.27 mills per kilowatt hour. These three approaches give a rather close approximation of equivalent taxes whether kilowatt hour, revenue, or investment is used. They add up to a total of approximately \$10,000,000 tax transfer from the proposed St. Lawrence investment to other taxpayers. This \$10,000,000 is part of the claimed savings by socializing the project.

**A**NOTHER large subsidized item is that of bond cost. The estimate used for Federal financing is  $2\frac{1}{2}$  per cent. The so-called Federal savings

bonds have a compound interest of  $2\frac{1}{2}$  per cent. A check on the handling charges of these bonds gives estimates as high as one per cent. Three-quarters of one per cent was given me by an expert as a reasonable amount. This gives a cost to the taxpayers of  $3\frac{1}{4}$  per cent or approximately \$2,000,000 per year on the costs of the proposed St. Lawrence hydro. This would be one of the hidden subsidies not concealable under revenue bond financing. It is interesting to note that John A. Fisher, president of the CIO Utility Workers at the Springfield, Massachusetts, hearing before the President's commission July 25th on a national water policy recommended revenue bond financing for Federal projects. The recent Engineers Joint Council report on a national water policy gives very important recommendations relative to revenue bonds, taxes, subsidies, etc.

For a number of years the purported reason for the Federal government financing these various projects was the claimed inability to have them financed by private means. This cannot be justly claimed for the St. Lawrence, as some thirty years ago a private company was formed to develop this project. That was at a time when the relative size of St. Lawrence was great compared with the other capacity in the region and financing would have been more difficult than it is today. At the present time the investment in the United States' half would not be relatively large as compared with the systems in the state.

From the foregoing, it is easy to see that there is no real justification for Federal financing of this project at the taxpayers' expense.



## New Light on "Interest during Construction"

*The recent rapid expansion of various public utility companies has resulted in wide variations in capitalization practices. The question of continuing credits for "interest during construction" is an important one, as long as the present rapid volume of construction continues.*

By W. F. STANLEY\*

VICE PRESIDENT, SOUTHWESTERN PUBLIC  
SERVICE COMPANY

FROM time immemorial it has been recognized that if anyone erected a building for business uses, the cost of the building included the taxes and interest they had to pay while the building was being constructed. This economic concept and the resulting treatment on the accounts were a recognition that all persons erecting business facilities would have to undergo these expenses and that, accordingly, it was fitting and proper that such expenses be included in the cost of construction; otherwise, the enterprise would show an operating loss before it was actually in operation, and on the other hand the facilities constructed would be carried at less than their true cost. The rate of taxes and

the cost of the funds invested in construction varied, but this did not affect the fundamental principle.

In the case of utilities this treatment is necessary not only to reflect the accounts properly but also because these costs must be added to the rate base in order to enable the utility to receive a return on the total amount invested in plant and property. The Uniform System of Accounts of the Federal Power Commission (which with the substantially similar system of the National Association of Railroad and Utilities Commissioners constitutes the accounting bible of practically all of the electric utility industry) provides for capitalization of interest and taxes during construction, and, recognizing that whether or not the funds used in construction are borrowed, they are still immobilized without a return un-

\*For additional personal note, see "Pages with the Editors."

## NEW LIGHT ON "INTEREST DURING CONSTRUCTION"

til the project is in operation, it defines the item of interest during construction to include a reasonable return upon the company's own funds during the process of construction; that is to say, on its retained earnings or new equity capital applied to that purpose.

**T**HE importance of the rate base has made the item of interest during construction of greater significance to utilities than to industry in general. It is particularly important to those utilities which are expanding rapidly, for then this item becomes significant as a practical matter because the amount involved is material, both in terms of percentage of total plant as to the rate base and in terms of percentage of net income as to the amount credited to the income account to offset the sum capitalized.

The rapidly expanding electric utility must raise substantial amounts by new financing, including a considerable degree of common stock financing, and per share earnings on the total outstanding shares cannot be maintained at levels sufficient to attract the new equity capital at reasonable cost, unless the cost of the funds used in the construction program is capitalized and income credited accordingly.

During World War II, and in most cases back to 1930, expansion of plant of the electric utility companies was on a relatively low level in terms of percentage increase in plant account. Under these circumstances, many companies preferred to forego the right to capitalize the cost of money used in construction because the amounts involved did not justify the additional work and consequent expense which such treatment would entail.

Under the Uniform System of Accounts of the Federal Power Commission the item must be computed separately as to each construction work order and included in the cost of the project covered by the particular work order. While recognized accounting theory was thus made secondary to economy, it is difficult to criticize this policy from a practical operating standpoint. However, with the end of the war, the electric industry embarked upon an expansion program of unprecedented size and scope and within the past four years capitalization of the cost of the construction funds until the facilities are completed has become prevalent, if not universal, among electric utility companies.

**B**UT, naturally, the variations in the degree of expansion of the different electric utility companies have resulted in a wide variation in the amounts so capitalized and credited to income. With the amounts of the credits to income increasing annually as construction expenditures increased, it is understandable that doubts may arise within the financial fraternity as to the conservatism of the accounting policies of those companies where the amounts of these income credits are substantial in relation to net income, and are increasing. It seems to the writer, however, that any such doubt is based on the fallacious premise that the mere amount so credited to income is a criterion of the conservatism or propriety of the accounting policy. The accounting principle is fundamentally the same whether the amount of the credit be large or small and whether it be a relatively high or relatively low proportion of the company's net in-

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come. Difference in the percentage of the credit to net income is not usually the result of a difference in accounting policy but of a difference in the proportion of new construction to total plant; that is, difference in degree of expansion. For example, let us take two companies each with gross plant of \$200,000,000, and each with a balance to common stock of about \$6,400,000, after including the credit for interest during construction. Let us assume one company is expanding at the rate of 20 per cent per annum (about twice the average for the industry), or \$40,000,000, and that accordingly the average amount of construction work in progress during the year in question was \$20,000,000. This is based on the assumption that about 45 per cent of construction will consist of generating units taking an average of twenty months for completion, 15 per cent of transmission lines taking an average of eight months, and the balance distribution extensions on most of which interest during construction is usually not computed.

**A**SSUMING the construction funds are invested on an average basis of one-half the duration of the project, this would indicate average work in

progress of something less than one-half construction expenditures. For purpose of the example, one-half of construction expenditures has been used as a rough estimate. Applying an over-all rate of say 6 per cent, this would make the amount capitalized and credited to income \$1,200,000. So in this case about 20 per cent of the balance for common would be represented by the construction credit. The other company's expansion is comparatively limited, being only a 5 per cent increase in plant account, or about one-half the industry average. On the same basis average work in progress would be \$5,000,000, and at the same rate of 6 per cent the credit would be only \$300,000, or less than 5 per cent of the balance for common.

But should we say the accounting policy of the latter company is more conservative or proper than that of the first, simply because the construction cost credit is about 5 per cent of the common stock earnings instead of 20 per cent in the case of the other company? Obviously, this is not the case. Both companies follow the same accounting policy as to both principle and rate. The discrepancy between the two figures is entirely due to the difference in rate of expansion—20 per cent in



**Q**"THE *Uniform System of Accounts of the Federal Power Commission . . . provides for capitalization of interest and taxes during construction, and, recognizing that whether or not the funds used in construction are borrowed, they are still immobilized without a return until the project is in operation, it defines the item of interest during construction to include a reasonable return upon the company's own funds during the process of construction; that is to say, on its retained earnings or new equity capital applied to that purpose.*"

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one case, as against only 5 per cent in the other, and this 4-to-1 ratio is naturally carried through both in the amount of the credit and in its percentage to the common stock earnings.

THE foregoing example assumes the same proportion of work in progress to construction expenditures in the case of both companies. Of course, the type of construction is also a factor in the average amount of work in progress and so affects the proportion of net income represented by the interest during construction credit. Where the construction consists of a larger extent of new generating plants or units whose installation requires a long period, the average amounts of work in progress and the interest item computed thereon are both increased. However, the construction programs of most electric utilities include new generating equipment, so this factor is probably not of great significance. With increasing total expenditure the proportionate cost of generating equipment has tended to increase in the last few years.

In the above example, the proportion of gross revenue dollars carried down to common stock earnings was assumed to be the same in the case of both companies, the figure used approximating the industry average—about 16 per cent for 1949. Thus, the \$200,000,000 of gross plant was assumed to produce about \$40,000,000 of gross revenues, of which it was further assumed about \$6,400,000, or 16 per cent, would be carried down to common stock earnings. However, the proportion of gross revenues carried to common stock earnings varies substantially from this average in the

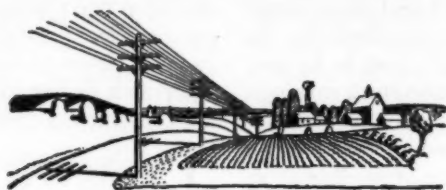
case of many companies, and this variation has a bearing on the impact on these earnings of the net revenue received from operation of the new equipment in lieu of the interest during construction credit.

THE adverse effect upon earnings if anticipated loads failed to materialize would be minimized in the case of companies having a high proportion of common stock earnings to gross revenues and, conversely, this effect would be intensified in the case of those companies where the contrary was true. For example, if 20 per cent of gross revenues were carried to common stock earnings, the relation of the interest during construction credit to this balance in the case of the rapidly expanding company used in the above example, would be only 15 per cent instead of 20 per cent, and, in the same case, if only 12 per cent of the gross dollar were applicable to common stock, the proportion of the credit would be increased to 25 per cent—an unusually high percentage. In the latter circumstances, the analyst and investor must necessarily lean more heavily on confidence in the management, since failure to receive an adequate return on the new investment could result in a substantial percentage dilution in per share earnings.

In an article entitled "The New Look in Utility Depreciation"<sup>1</sup> the writer called attention to a somewhat analogous situation relating to that subject; namely, that the application of "rule-of-thumb" methods to the percentage to gross plant and property

<sup>1</sup> *Analysts Journal*—third quarterly issue of 1949; another article on this subject by this writer was published in *The Journal of Accountancy*, June, 1949, issue.





### Anticipating Growth of Demand

**"I**T is quite generally recognized that a high degree of growth, in an electric utility, is a desirable factor from the standpoint of increased income and market appreciation. But if there is to be (or to continue) a high degree of growth in the territory served, with all its compensations, the utility must be ready for it. It must anticipate the growth and the increased demands accompanying it or it will not be in a position to render satisfactory service as the additional demands for power are made."

of the accumulated reserve on the balance sheet of an electric utility company would no longer accurately reflect the adequacy of the reserve, because of the wide difference among the various companies in the proportion of recently constructed facilities. Here again, the degree of expansion was the controlling factor rather than the percentage itself, and here again, the conservatism of the policy had to be considered not in the light of the amount or percentage of the reserve, but by properly relating these items to the proportion of newly constructed property for which only a relatively small reserve would be necessary.

**I**T is believed this approach has been increasingly recognized in evaluating the adequacy of the depreciation reserve and it is submitted that the cost of money during the period of construction should likewise be con-

sidered individually in each case, and not by applying any "rule-of-thumb" method or by attempting to compare, without analysis of the difference in degree of expansion, the proportion of the income credit for interest during construction to the amount applicable to common stock as between various companies where the growth factor may vary substantially.

In an interesting memorandum on the subject of this article, Arthur W. Hatch of Ebasco Services concludes that the amount to be capitalized for interest during construction should be a fair return on (and not specifically the cost of) the money used in construction. With this broad concept the writer is substantially in agreement. Such fair return can be considered as the average return necessary to attract the investment funds, weighted as between borrowed and equity money in the proportion in which the funds are



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customarily raised, in accordance with each company's basic capital structure and financial plans. Another approach would be that a fair return represented the permitted return which the company might expect to receive when the facilities were completed.

IT is not the purpose of the writer to deal with the proper rate at which the construction in progress should be capitalized. The rate necessarily varies between companies and the overall rate is also affected by variation in policy as to the type of construction work to which interest during construction will be applied. Because of administrative difficulties and the disproportionately heavy expense involved, most companies do not compute interest during construction on projects (principally distribution extensions) involving small expenditures or which will be completed in a short period, although theoretically the cost of funds involved in these items could properly be capitalized. Therefore, almost universally the credit to income for any period, if divided by the average amount of all work in progress for such period, would produce a lower percentage than that represented by the rate which the company is applying. This is because a large number of small projects are, in effect, carrying no interest during construction.

From an accounting standpoint—i.e., to determine the amounts to be reflected on the books—it appears the amount to be capitalized should be a rate approximating the over-all cost of the money involved. Accordingly, the amount so capitalized and credited to income will reflect, not the anti-

pated rate of earnings on the completed facilities, but the rate necessary to attract the investment funds to make the additions. But from the standpoint of the financial analyst and the investor a broader economic concept seems desirable.

TAKING the above example of a rapidly expanding company we find that 20 per cent of the common stock earnings represents credit for the cost of money used in construction. As indicated above, this relatively high percentage does not reflect on the propriety or conservatism of accounting policy. It is simply the result of a high degree of expansion and growth. Such a credit to income is not only proper from an accounting standpoint, but is essential if the earnings are to be maintained at levels sufficient to attract equity capital at a cost to the company sufficient to justify the expansion. It is imperative that the increased demands for electricity be met and that reliable and efficient service be maintained, and this is impossible unless equity funds can be attracted without excessive dilution.

From the economic viewpoint, that of the present or prospective investor, what will happen to the earnings of our expanding company when the expansion is completed and the credit to income for the cost of the funds for construction is no longer available? So long as the rapid volume of construction continues, one item under construction will succeed another and the credit will be substantially maintained. But if construction ceased, the credit would disappear. True, utility expansion does not cease overnight.

But a sharp and continued decrease in construction might substantially reduce the credit and thus decrease the balance of earnings for common unless offset by a comparable or greater amount of earnings to be derived from the operation of the completed facilities.

So the investor must consider the question: "Will these additional operating earnings be sufficient to offset the loss of the credit when it occurs?" The cost of money for the construction has been incurred. It is in the nature of a fixed charge, either in additional interest or preferred dividends, or in the form of additional shares of common stock, holders of which will now share in the company's income.

It is quite generally recognized that a high degree of growth, in an electric utility, is a desirable factor from the standpoint of increased income and market appreciation. But if there is to be (or to continue) a high degree of growth in the territory served, with all its compensations, the utility must be ready for it. It must anticipate the growth and the increased demands accompanying it or it will not be in a position to render satisfactory service as the additional demands for power are made. This means it must lay out its construction plans well in advance, for

large generating units still require a long period for building and installation. So the electric utility must provide the facilities before the increased demands materialize. By the same token, it must also finance this construction in advance and incur the cost of this financing. So if we are to have growth, we must also have advance planning and expenditure, and the incurring of the cost of the new money.

It is true, of course, that the cost of the new facilities, including the component of capitalized interest during construction, will go into the rate base, but this in itself is no assurance that additional net operating income sufficient to support the additional fixed charges will be promptly forthcoming. While eventually any discrepancy in the return on the new facilities might be adjusted by rate increases, this is a doubtful solution and one which will ordinarily be considerably delayed.

So the investor must have reasonable confidence that the additional demands (for which the new facilities have been constructed) will shortly develop in a degree sufficient to provide enough additional net operating income to at least support fixed charges on the funds used to build the facilities.

In some cases the financial analyst,



**I**f the record shows that the management has been reasonably correct as to the growth in its territory in planning expansion in the past, if adequate increases in revenues and net operating income have followed recent expansion, then the investor and the analyst may have greater confidence that current expansion will likewise earn a satisfactory return when the new facilities are in operation."

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from knowledge of the territory served and other pertinent available information, may be able to reach his own conclusion as to the outcome. But, generally, it would seem that both the analyst and the investor must lean heavily on the judgment of the company's management. The management is most intimately acquainted with the territory, its prospects, and the day-to-day developments which indicate the degree and timing of the future demands. They have necessarily made studies and surveys in advance of committing the company to the expansion expenditures.

**B**y what standards then should this confidence be given or withheld? Many managements in the electric utility industry are known to security analysts, often by personal contact. Also, the growing trend in the electric industry towards the more frequent dissemination of fuller information, not only as to figures and statistics reflecting past operations, but also as to policies and developments affecting the future, should enable security analysts and investors more intelligently to evaluate the prospects of the particular company. Then, too, many electric utilities have been expanding rapidly for several years, and here the economic benefits already derived from the past expansion may be used as a guidepost in appraising the judgment of the management as to present and future expansion. If the record shows that the management has been reasonably correct as to the growth in its territory in planning expansion in the past, if adequate increases in revenues and net operating income have followed recent expan-

sion, then the investor and the analyst may have greater confidence that current expansion will likewise earn a satisfactory return when the new facilities are in operation.

But there is another fundamental factor of safety which would seem to indicate that even if the management's expectations were not fully realized, earnings from the new facilities should still be sufficient to offset the loss in income from cessation of the interest during construction credit. This is the fact that it appears that the annual amount of this credit included in the income account should, generally speaking, be far less than a return of 6 per cent upon the new property. Obviously, a return is to be expected upon the full amount expended in construction, whereas the amount of the credit for interest during construction included in the income account in any year should be substantially less than a 6 per cent rate on total construction expenditures for that period.

**T**HIS is so for two reasons—first, because distribution extensions, such as normal connections with new customers, as well as many other items involving either small expenditures or short periods for installation, do not customarily carry interest during construction and these items should aggregate a substantial portion of construction expenditures; second, as to the remaining construction, the portion of the total cost of a project included in work in progress within the duration of the project will, of course, vary, being low when the project is initiated and gradually rising until completion, and since it is this grad-

ually rising amount and not the full cost of the project which will carry the interest during construction credit, the annual amount of the credit should be substantially less than the 6 per cent anticipated return on the completed facilities, even if the rate used for capitalizing interest during construction is also 6 per cent.

Statistics are lacking by which to determine accurate averages in the case of these figures, but it would seem unlikely in most cases that the interest during construction credit should run in any year to more than one-half of a 6 per cent return on the amount expended in that year for construction purposes, and, this being the case, it would appear necessary that the company earn only 3 per cent upon the new equipment to offset the credit.

Purely as a hypothesis, this result would be obtained if it is assumed that 40 per cent of construction were expended for items as to which the cost of money was not capitalized, and that as to the remaining 60 per cent of expenditures on which the cost of the money was capitalized, 45 per cent was expended for generating equipment and the balance for transmission lines, substations, transformers, etc.

**A**SSUMING the generating equipment projects lasted an average of twenty months and the other additions for an assumed average period of eight months, and if it were further assumed that funds for these projects were expended in equal instalments over these periods, and then considering that the other 40 per cent of the expenditures would carry no interest, it is indicated that the over-all con-

struction expenditures would carry interest only for between five and six months of the year, so that at a rate of 6 per cent, the interest during construction item would represent something below one-half of the anticipated 6 per cent return.

In conclusion, the basic economic concept of an adequate return on the facilities being constructed goes far beyond the item of interest during construction—it goes to the fundamental question of whether the expenditures are economically justified. Under these circumstances, interest during construction represents merely the reflection in the accounts of the cost of money used to expand facilities, and this amount will rise or fall in its proportion of the balance to earnings for common stock depending on the proportionate expansion of plant and property, and, to a lesser degree, upon the type of such expansion.

**N**OW as to the all-important question of whether the expansion is justified, it seems that the analyst and investor must make their decision on the basis of confidence in management, supported by the assurance conferred by the substantial margin of safety between a reasonably anticipated annual return from the new property and the capitalized cost of the funds which has been annually credited to the income account. Considering this safety factor, and if the management's record has been good in predicting accurately the growth in the territory served, it appears that the present and potential investor need not be concerned as to the future earnings on his stock.



## Why a Demand Charge?

*The so-called "demand charge," especially in the case of industrial rates for an electric utility's customers, has recently been questioned from the regulatory point of view. Here is an analysis of the background and purpose of the demand charge, which is the result of considerable experience and original thinking by some of the best minds in the industry.*

By HENRY W. HILLS\*

MUCH has been written about the demand charge in electric rate schedules, and it would seem at this late date that everybody connected with the electric industry should be thoroughly versed in the reasons for such a charge. However, judging from the appearance of current articles on this question, it appears that such is not the case. After all, this principle is an old one which goes back some fifty years or more, and with the passage of time there have become associated with the industry thousands of younger people who may not have had the background to assess fully the values relating to this question.

As every electric utility engineer knows, the primary function of every utility planning department and every utility engineering department is to provide sufficient capacity to supply the load. This capacity must be supplied not only at the generating sta-

tion, but in the transmission lines, in the substations, in the distribution lines, right up to the point of supply at the customers' premises. If all customers served by the utility were 100 per cent load factor customers, then the utility would have to have as much capacity at the generating station as it has at all points of delivery, plus an additional amount to take care of system losses. The same fact would be true if all the customers had their maximum takings at the same time.

HOWEVER, since all customers do not have 100 per cent load factor and since all customers do not have their maximum takings at the same time, a utility takes advantage of diversity, and its capacity at the generating station may be only one-quarter or one-third of the sum of the capacities supplied at its customers' premises. This diversity between customers starts when two or more customers are supplied from one secondary wire and it

\*For personal note, see "Pages with the Editors."



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changes at each point that additional customers are supplied, at the line transformers, on the primary feeders, at the substations, on the transmission system, and all the way back to the generating station. The determination of the diversity actually existing in a particular utility system is one of the major problems which every rate engineer has encountered. Only today, instead of thinking in terms of diversity factors we think in terms of their reciprocals, or coincidence factors. For example, if two customers, each having a maximum demand of 10 kilowatts, have a coincident maximum demand of 15 kilowatts, the coincidence factor is obtained by dividing the coincident maximum demand by the sum of the individual maximum demands. In this case it would be 15 divided by 20, giving a coincidence factor of .75. Much commendable work has been done in the determination of coincidence factors by many electric utility companies.

**A**NALYSIS of the investment and operating costs of a hydroelectric utility shows that a negligible proportion of its total costs varies with the kilowatt hours supplied to the customers. In order to supply the load, the plant has to be in existence and the term "plant" here is used to include not only the generating station but the transmission lines, substation, distribution lines, line transformers, services, and meters, and all other items of plant needed to render service to the customers. Since this plant is needed to supply the capacity, it must be maintained and be in such condition as to render adequate service.

The operating costs of a given

hydro plant vary very little from year to year with variations in kilowatt-hour output. True, there may be some small amount of increased maintenance of the hydroelectric equipment with output, but the major items of fixed charges and operating costs go on from year to year as long as the plant is called upon to render service.

When it comes to the other items of plant, such as transmission and distribution wires, poles, conduit, and transformers, there is no appreciable expense involved in maintaining this equipment which is dependent upon the kilowatt hours supplied. The entire plant has to be maintained at all times to render service, regardless of whether the kilowatt hours that may be transmitted over this plant are many or few. Thus, if the rates of a hydroelectric utility are to bear any relation to the cost, it would seem that a kilowatt-hour basis would be most inappropriate but that a more consistent basis would be the capacity which the utility is obligated to supply to the customer, or, in other words, the maximum demand that the customer takes at any time during the year.

**A**NALYSIS of income statements of typical steam-electric utilities shows that approximately 25 per cent of the revenue is spent for fuel. Aside from this item of fuel, most of the annual costs are not related to the kilowatt hours actually sold during any given period. For example, transmission and distribution operating and maintenance costs depend upon the number of miles of overhead and underground lines to be operated and maintained and the number and size of the substations in service. Metering



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and billing costs depend upon the number of customers and the capacity (or demand) of each. Depreciation, property taxes, and interest charges depend upon the amount of property in service. Thus for a typical utility using fuel as its source of power, a major percentage of its total annual costs has no relation to the kilowatt hours sold but rather to the capacity which

the utility is obligated to supply. So in this case, if rates are to have any relation to cost, they certainly should include not only an element based on kilowatt-hour costs but another element based on capacity costs.

If a utility rendered only one kind of service, let us say low tension alternating current service, and all its customers were alike and had the same



TABLE I

### ANNUAL DEMANDS AND ENERGY CONSUMPTION OF POWER CUSTOMERS

	<i>Max. Kw. In Year (30-minute)</i>	<i>Annual KWH</i>	<i>Hours Use Of Demand Per Year</i>	<i>Annual Load Factor</i>
Dry Dock .....	6,896	338,692	49	0.6
Chemical Company .....	418	622,760	1,490	17.0
Mfg. Co. ....	488	1,234,710	2,530	28.9
Lithograph Company .....	802	1,472,300	1,836	21.0
Food Warehouse .....	438	1,472,626	3,362	38.4
Warehouse .....	922	1,760,259	1,909	21.8
Warehouse .....	619	1,822,800	2,945	33.6
Retail Store and Warehouse .....	1,152	1,871,600	1,625	18.6
Hospital .....	444	2,021,000	4,552	52.0
Clock Mfr. ....	633	2,059,600	3,254	37.1
Telephone Exchange .....	450	2,095,200	4,656	53.2
Mfg. Co. ....	1,036	2,184,000	2,108	24.1
Paper Goods Mfr. ....	1,353	2,374,467	1,755	20.0
Tool Mfr. ....	788	2,375,400	3,014	34.0
Ice Company .....	806	2,592,156	3,216	36.7
Lamp Mfr. ....	775	3,259,902	4,206	48.0
Automobile Assembly .....	1,679	3,608,854	2,149	24.5
Ice Company .....	825	3,742,160	4,536	51.8
Carpet Mfr. ....	1,022	3,852,800	3,770	43.0
Steel Products .....	2,135	4,125,830	1,932	22.1
Iron Castings .....	2,094	4,229,940	2,020	23.1
Arsenal .....	2,332	4,280,000	1,835	20.9
Publishing Company .....	1,332	4,299,000	3,227	36.8
Hotel .....	1,293	4,734,630	3,662	41.8
Electric Machinery Mfr. ....	1,512	5,085,000	3,363	38.4
Traffic Tunnel .....	1,233	5,177,792	4,199	47.9
Soap Mfr. ....	1,212	5,260,606	4,340	49.5
Wire Mfr. ....	1,368	6,028,000	4,406	50.3
Water Pumping .....	1,569	6,618,000	4,218	48.2
Food Processing .....	1,173	6,814,433	5,809	66.3
Paper Mfr. ....	1,569	7,885,750	5,025	57.4
Radio Mfr. ....	2,206	8,152,082	3,695	42.2
Automobile Assembly .....	3,312	8,515,000	2,719	31.0
Paper Mfr. ....	2,016	10,440,000	5,179	59.1
Textile Mfr. ....	2,462	11,478,000	4,662	53.2
Food Processing Company .....	3,040	14,175,604	4,663	53.2
Railroad Station .....	3,313	16,502,862	4,981	56.9
Cold Storage Warehouse .....	3,399	16,899,050	4,972	56.8
Municipal Utility .....	4,250	18,472,942	4,347	49.6
Municipal Utility .....	6,624	20,515,000	3,097	35.4
Roofing Material Mfr. ....	5,659	21,575,000	3,813	43.5
Rubber Goods Mfr. ....	9,273	39,447,000	4,254	48.6
Private Utility .....	23,688	96,023,300	4,054	46.3

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demands, the same coincidence factors, and the same kilowatt-hour consumption each year, it would not matter much what basis was used to charge the customers. It could be a flat rate basis of so much per customer or a flat rate basis of so much per kilowatt or a flat rate basis of so much per kilowatt hour. However, all customers do not have the same characteristics; some customers are small, some customers are large.

**T**HIS brings into consideration another factor, and this is the element of customer cost. In order to cover an area and be able to supply all the customers in its franchise area, and be able to run services from the nearest pole into the individual customer's premises, and to install meters, a certain customer cost is involved. This is best exemplified by a rural distribution line, the cost of which is mainly a customer cost and consists of poles and wires to reach the customers. Hence it is obvious that if an electric rate is based to any extent on cost, it will contain a customer charge, either as a specific charge or the equivalent, which might be expressed as a minimum bill. After a customer's consumption reaches a certain point and the customer cost is paid for, the customer should receive the advantages of a lower rate.

In addition to variations in size, there are of course great differences in load shapes between individual customers and between classes of customers. In the residential class, for instance, customers with electric refrigerators generally have a higher load factor than customers who do not have electric refrigerators; customers with

electric ranges have entirely different characteristics from customers who do not have electric ranges; also, customers with electric water heaters have entirely different characteristics than customers who do not have electric water heaters.

**T**HE electric utility is up against two problems in supplying service. First, it must sell its product at a competitive rate. This competition, of course, varies widely, depending upon availability of natural gas, manufactured gas, oil, and coal, and the prices at which these are sold. It is perfectly obvious to the average utility salesman that to attempt to sell electricity to residential customers at a flat residential rate would make it impossible to develop any appreciable electric cooking or water-heating load. Using the national average of 3 cents per kilowatt hour, the electricity consumed by the average electric water heater would cost around \$10 a month, which of course would make it impossible for a utility to get much business, except perhaps in a few isolated areas where competitive fuels are not available except at a high price.

The utility must not only meet competition but must be sure that the additional load it takes on is not being supplied at a loss. Thus it becomes necessary to determine the load characteristics of the different types of equipment and to determine at what price this load can be supplied in order to yield a profit. It seems quite obvious that if the competitive price is lower than the utility's increment cost, it would be poor business judgment to attempt to meet competition by selling its services at a loss which would have

## WHY A DEMAND CHARGE?



### The Need for Education on Utility Practices

**"O**NE of the major problems which every utility faces today, and has always faced, is that of education. Since the existing rate practices are the result of many years' experience and much technical detail, this is a very difficult problem, and even people who have considerable dealings with public utilities do not always understand the fundamentals involved."

to be made up by higher charges to other customers.<sup>1</sup>

**A**NOTHER variable in the determination of rates which has not been mentioned above is the variation in types of service rendered. Not all customers take service at 115 volts and 60 cycles. Some customers take their load directly from the 2,300- to 4,600-volt primary wires and thus require no investment in line transformers and secondaries to serve them. Other customers take their load at 13,800 or some other intermediate voltage and thus require very little distribution investment, while still other customers take their energy off the transmission lines at 66,000 or 110,000 volts. Generally, utility rates reflect the differences in cost to supply customers at different voltage levels. In fact, if they attempted to collect the same average revenue from a customer served at,

say, 13,800 volts or above as they collect from a customer served at 115 volts, it would no longer be economic for the high tension customer to purchase his energy and so he would generate it himself.

The utility may have a monopoly as far as transmitting electric power over and under the public streets is concerned, but it has no monopoly concerning the generation of power. Every industrial company has the option of purchasing electricity or of installing its own private plant, and it is only when it can purchase a dependable supply at less cost than it could provide this service for itself that it takes utility service. Thus, competition largely determines the type of rate schedules for industrial customers.

**I**T is apparent that a manufacturing establishment which operates on a one-shift basis eight hours a day for five days a week has a very poor load factor, in the neighborhood of 20 to

<sup>1</sup> House heating by electricity is in this class in most parts of the United States.

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25 per cent. Since such a large proportion of power costs are fixed and do not vary with the amount of kilowatt hours generated, the average cost for this manufacturer to generate his own power, including a return on his investment, taxes, depreciation, operating labor, maintenance, and fuel, would be high, perhaps 2 cents a kilowatt hour. On the other hand, a company which operates on a continuous basis, such as a cement mill, steel mill, paper mill, chemical plant, with identically the same size plant as the first manufacturer mentioned, would have an average cost of perhaps one cent per kilowatt hour simply due to its higher load factor operation which distributes the fixed costs over a larger number of kilowatt hours. In order to meet competition it is therefore impossible for a utility to charge the same average rate to all its industrial customers, as it would lose the high load factor customers and retain only the low load factor customers which would be supplied at a loss.

In Table I (page 351) is given a partial list of demands and consumption for industrial customers with a demand of over 400 kilowatts. The first point this table brings out is the variation in size, from 438 kilowatts to 25,900. The second point this table brings out is the great variation in annual load factor, from .6 per cent to 66.3 per cent. Other factors this table does not show are the load shapes, the coincidence factors, and the individual contributions to the system peak.

**I**T is perfectly evident to a rate engineer that to charge the same rate per kilowatt hour to all these customers would not only be unfair and

unjust, but would result in loss of the high load factor business which is a very desirable and profitable business to serve, unless the rate were so low that the low load factor customers would be served at a loss which would have to be made up by overcharging some other class of service.

**T**o sum up the reasons as to why a demand charge, some of the more important ones are:

1. The major portion of the total annual costs of any electric utility, whether steam or hydro, is in supplying capacity at the point where the customer receives it. This involves two elements: a capacity cost and a customer cost.

2. The annual costs of an average utility plant, which vary with the kilowatt hours generated, are in the neighborhood of 20 to 30 per cent of the total cost.

3. If rates are to bear any relation to the cost of supplying service, they must incorporate a demand charge, a customer charge, and an energy charge.

4. The load characteristics of the various customers served by a utility differ greatly, both in size and in use of the installed capacity. The size varies from a few watts to supply a small customer with a couple of lamp bulbs to five, twenty, fifty or more thousand kilowatts supplied in one location to a large industrial company. The hours' use may vary from a few hours per month to five or six hundred, in some cases even more.

5. Competitive costs also have a large demand component which must be recognized in the rate structure if the utility industry is to obtain and

## WHY A DEMAND CHARGE?

retain the power business and develop along sound economic lines.

**T**HE rate schedules in effect today by the electric utility industry are the outgrowth of experience and much original thinking on this subject by such people as Hopkinson, Wright, Eisenmenger, Doherty, and other pioneers from the beginning of the electric utility industry nearly seventy years ago.

The above principles are generally recognized, and to meet the practical situations these principles are applied in different ways. For industrial customers the rate form usually consists of a demand charge and an energy charge, so that the high load factor customers will have a lower unit cost per kilowatt hour than low load factor customers, and thus the utility meets its competitive situation. The demand charge sometimes is based on a portion of the demand costs for low load factor customers who have a low coincidence factor (high diversity factor), and the energy charge sometimes includes a portion of the demand costs so that customers with higher load factors and consequently higher coincidence factors pay their appropriate share of the total costs. It is common practice to encourage off-peak loads by making concessions in the demand charge for those customers who keep their loads off the system peak.

**A**NOTHER method of taking demand charges into account is by special contract. Such a contract may not mention in so many words a demand charge, but the terms of the contract are tailor-made to meet the conditions of the individual customer, and the demand costs are included in one form or another. Another method of taking demand costs into account in a rate schedule is by the use of a minimum charge, where the minimum charge varies with the amount of capacity which the customer uses. Still another method is the Wright demand method, where the first block of kilowatt hours is at a high rate and the number of kilowatt hours at this rate is proportional to the customer's demand. This method is frequently used for commercial customers.

The simple block rate, where the blocks are a fixed number of kilowatt hours regardless of the demand, is obviously only appropriate and fair when it applies to a homogeneous group of customers. Such a group is a residential group, which in many cases has a customer component of cost which is greater than the demand component. In this case the demand component is based upon the average for all customers and included with the customer component to determine the charges and number of kilowatt hours in each block. However, even here there may be inequities, but due to the large num-



**Q** "ANALYSIS of income statements of typical steam-electric utilities shows that approximately 25 per cent of the revenue is spent for fuel. Aside from this item of fuel, most of the annual costs are not related to the kilowatt hours actually sold during any given period."

## PUBLIC UTILITIES FORTNIGHTLY

ber of customers supplied, the cost of correcting the inequities by the installation of thousands of demand meters could be more than the savings to a few individual customers that might be brought about by the elimination of these inequities.

ONE of the major problems which every utility faces today, and has always faced, is that of education. Since the existing rate practices are the result of many years' experience and much technical detail, this is a very difficult problem, and even people who have considerable dealings with public utilities do not always understand the fundamentals involved. As shown

above, the principal item which an electric utility has to sell is not a kilowatt hour but a kilowatt of capacity. In many respects it is very similar to the hotel business, which charges so many dollars a day per room. In this case what the customer purchases is the use of a room, and he pays the daily rate although he may occupy a room for only three or four hours. Of course, if he occupies it the entire twenty-four hours in the day, his cost per hour is less. Similarly with the purchase of a kilowatt of capacity; if a customer uses it twenty-four hours per day, his hourly cost should be less than for a customer who uses it only a few hours in the day.

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### Business Growth v. Population

**"I**n my opinion there is a great deal of myth in what is said and written about lack of competition in this country. You get the impression from some things you read that we have less competition than we used to have; and yet there is very good evidence that the opposite is true. Our economy is much more competitive than the economies of western Europe from which it sprung—and we are moving toward greater competition.

"The test of competition does not lie in theory but in fact. The test of competition is opportunity. Can buyers find alternative sellers? Can sellers find alternative buyers? Can people who want to do so go into business for themselves, make a living, and progress?

"Well, let us look at the record. It shows that the number of firms in the United States is increasing at a faster rate than the population. In 1900, there were twenty-one firms for every thousand persons. In 1947, there were twenty-six for every thousand. There are now some four million private enterprises in this country. And note this: 95 per cent of them have fewer than one hundred employees. Furthermore, there are now 20 per cent more individual enterprises than there were before the war."

—EUGENE HOLMAN,  
President, Standard Oil Company  
(New Jersey).





## The Company Library – A Tool Of Management

*What good is a library to an operating public utility company? How can it be made most effective? What are its true functions and possibilities? How large or small should it be, and what should it cost in relation to the company's size and operations? These are important questions, discussed in a very original approach to an important managerial problem—making better use of the company's library.*

By ALMA C. MITCHILL\*

It is generally recognized that the public utility industries of America are entering a critical era in their existence from the standpoint of relations with their public, their government, and their employees. More than that, public utilities have become the vanguard of the enterprise system and their fate is coming to be regarded by other industries as a likely portent of what lies in store for private management generally.

In such a situation, management needs all the tools it can lay its hands on. This article is to suggest the value of a tool which already lies, perhaps neglected or even unnoticed, beneath the hands of management—the company library. At its worst, it can be-

come a dumping ground of unneeded books and documents—a little used catalogue and collection of miscellaneous and surplus data. At its best, it can become the common denominator of managerial intelligence, bringing every branch and division of the company into an alert and integrated team. In this sense, the company library—or, to put the emphasis more fairly, the company librarian—becomes a sort of “central intelligence,” a prototype of the military counterpart of that name, without which the modern army would be lost in any difficult operation.

The “company library” is a comparative newcomer to the American business scene. In the general business field special libraries have developed rapidly only within the past four decades. In 1910, only 108 were known to

\*For personal note, see “Pages with the Editors.”

## PUBLIC UTILITIES FORTNIGHTLY

exist. In 1921, this figure had grown to 429; in 1925 to 975; and ten years later to 1,475. Today there are approximately 2,500 in the United States and Canada.

The majority of business and industrial libraries have come into existence or prominence since World War I, due primarily to the fact both business and industry became aroused to the keen necessity for keeping not only abreast of the times but even ahead of the times if possible. Manufacturing concerns, banks, investment houses, insurance companies, law firms, advertising agencies, public utilities, transportation companies, newspapers, research organizations, trade associations, engineering societies, and other organizations are now the prime exponents of modern special libraries.

Some special libraries serve the entire organization. Others, as in the case of departmental or government libraries, serve only a selective clientele. In every instance, however, the library's main functions are: (1) to provide information on the subject or subjects of interest to its own particular profession or industry; (2) to classify this information so that it may be readily available; (3) to keep it up to date; and (4) to produce it when needed, or have it on the executive's desk even before it is requested. The truly modern company library tends, at all times, to be the clearing house of factual material vital to the well-being of the organization which it serves.

### *Dissemination of Information*

**K**EEPING the executive informed of information pertinent to his business is a primary function, of course.

But the librarian often has another mission in a large organization. That is to supply reading matter for the education and recreation of the employee. Reading lists are compiled, upon request by the librarian, and when educational classes are conducted, material needed is lent through the library. Employees taking outside courses are often aided by the librarian, in securing for them the books which must be read in conjunction with their studies.

**I**N Public Service Electric & Gas we have a general training course. Employees enrolled are required to acquaint themselves with the library as part of the course. In meetings with these employees, the librarian discusses the various dictionaries, encyclopedias, directories, and other material which will assist them in their specific type of work.

But we also try to give more informal and friendly assistance, as well. If they come in during the holiday period, we remind them they need not be puzzled as to where to find a certain address for a special Christmas card. Our many city directories are theirs for the asking. From the first of the year to March 15th, the library renders special service to employees in keeping a supply of income tax blanks and booklets explaining the intricacies of filling out the forms. During the vacation period, if they so desire, we offer to plan trips, whether by land, sea, or air.

Time is always allowed after a general talk for the class to browse around the library, so that the members may have a general idea of the material it contains. "Cadets," who come to the company from college for a 2-year

## THE COMPANY LIBRARY—A TOOL OF MANAGEMENT

training period before being permanently placed, are generally brought to the library before they start their duties. During their assignments throughout the various divisions in the company they keep in touch with us and we with them. We send them notices of new material in their particular field and they often come to the library for assistance.

**I**N Public Service, we also compile and distribute weekly bulletins: One is on labor rulings. Another is on current happenings in the business world, particularly in the public utility industry. A third lists new acquisitions. We prepare bibliographies and a quarterly bulletin listing new books, pamphlets, reports, and magazine articles, with a brief abstract of each.

In addition, we send out posters for bulletin boards, bookmarks, desk cards, leaflets such as "The Scope and Purpose of the Public Service Library" and "The Public Service Library and You," calling attention to the services provided by the library to all employees of the company, no matter what their job or where they may be located. Then there is our magazine routing service, whereby anyone may have certain magazines sent him regularly merely by signing his name and location to one of our magazine lists, and checking those magazines he wishes to see. These are lent from three to seven days.

We lend books for one month, with renewal privileges, unless there is a reserve for them, in which case the borrowing period is two weeks. In addition, we keep a personal file of subjects in which certain of our employees are interested and either send them material on these subjects as soon as it is received or notify them that the library has such and such material if they wish to see it. We also have a hobby exhibit which is changed monthly. These exhibits have proved to be a very definite means of advertising the library.

Other means of disseminating information are making literature and patent searches, translating foreign publications, abstracting articles in magazines and circulating them instead of the magazines. This is done mostly by those libraries which subscribe to but one issue of a periodical. Some librarians utilize their house organs and, if they can be assured of a column in each issue, this is an excellent medium for acquainting the reader with new material on some phase of the library service.

### *Typical Questions Asked and Answered*

**R**EQUESTS for information received by our library are of both a general and technical nature. However, there are three such requests which stand out in my mind as unusual. One,



**Q** "THE majority of business and industrial libraries have come into existence or prominence since World War I, due primarily to the fact both business and industry became aroused to the keen necessity for keeping not only abreast of the times but even ahead of the times if possible."

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because it seemed so simple, but which took considerable time to answer. The others because they were rather unique. The simple one, so we thought, was to locate the origin of the name, "Sewaren," the town where we were building our latest power plant. Thirteen separate and distinct libraries and historical societies were consulted or visited. The result was eight different answers, all of which could be authentic. We finally made a report on our findings and let the chief engineer take his choice!

**T**HE other two called for specific items, a pistol and an elephant with an attendant! It seemed that a certain type of pistol was needed in a play to be produced by our sales promotional department and it had to be acquired in a hurry. Through one of our hobbyists, who collected pistols, we were able to borrow the lethal weapon, much to the joy of the man making the request. The elephant and his attendant were a different story since we did not know anyone who collected such creatures, but through a theatrical agency in New York we produced the goods and won the everlasting gratitude of our out-of-town man. A few months ago we were asked to secure a skeleton for our safety department. This we did through the Academy of Medicine of Northern New Jersey. Typical questions asked the library include:

List of companies manufacturing blueprint machines.

Data on fighting fires in substations.

What is the Fourth Estate?

AIEE standard for line-type transformers.

Data on gaseous explosions in man-holes.

Formula for varnish remover.

Data on steam accumulators used in the Charlottenberg Plant, Germany.

Data on washing of insulators on high-tension lines.

Information on the Morgan Test used to determine the mental status of accident prone drivers.

Information on safe operation of interlocking systems burning pulverized fuel, oil, and gas.

What is the Federation of Architects, Engineers, Chemists, and Technicians?

Name of secretary of Pennsylvania Railroad Company in 1925.

What electric company serves Edinburgh, Scotland, and what type of service is used?

Information on aging of cast-iron pipe.

Bibliography on gas purification.

What is the bus fare in Russia?

Data on changeover from manufactured to natural gas.

**H**ow are these requests answered? Most special libraries, unless they serve a limited personnel and are highly specialized, have, in addition to their books and periodicals, innumerable pamphlets, government documents, trade catalogues, corporation reports, transactions and proceedings of various professional associations, business and financial services, published indexes, and other reference material. These are the tools used in answering questions. However, as dependence upon the librarian grows, he finds it impossible to have on his shelves or within his files all the material where-with to answer these ever-increasing demands. Therefore he must have a thorough knowledge of outside sources of information and of where to turn for it.

If the question is of a general nature, the public library in his vicinity

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### The Growth of Company Libraries

**"T**HE 'company library' is a comparative newcomer to the American business scene. In the general business field special libraries have developed rapidly only within the past four decades. In 1910, only 108 were known to exist. In 1921, this figure had grown to 429; in 1925 to 975; and ten years later to 1,475. Today there are approximately 2,500 in the United States and Canada."

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is his first thought; if of a specific nature he will telephone or write the librarian of an organization specializing in the subject requested. It is through membership in Special Libraries Association that he learns of the facilities of these other libraries which he may call upon when in search of material foreign to his particular field. This association, consisting of over 5,000 members, has 25 chapters, 23 in this country and two in Canada, and 13 divisions divided into subject interests. Its headquarters are at 31 East Tenth street, New York 3, New York.

#### Organization of a Company Library

**P**UBLIC utility companies, as well as business organizations generally, which do not have a library, will be interested in some practical program for organizing one. A special library may be a one-man library, or it may have a staff of twenty-five or more. The number on the staff will depend entirely upon the size of the organization and the part it is called upon to

play in the business of the company. But whether it is large or small, it will be most effective if it is a *separate entity*! By that is meant independence of any one company department. As an independent unit the librarian would report directly to one of the officers of the company. In Public Service the library is under the supervision of the secretary of the company. This arrangement has proved to be successful, since the library cannot really be held responsible to any one department because it should, without prejudice, serve impartially all executives and employees of a multiple organization such as ours.

Another important concern in planning a library is its location. Many a library has lost its usefulness in an organization, although much money may have been spent on its operation, furnishings, and equipment, simply because it was, in its infancy, housed in an out-of-the-way corner of the general office building. Where possible it should be near the executive offices. If



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the building is large the library should be accessible to more than one bank of elevators.

Frills are not essential. It has been found that a library when first established, and advantageously located, and simply furnished with a desk, a chair, a telephone, a few essential reference books, including a *Directory of Special Libraries*, and presided over by an experienced librarian, will function far more efficiently than one beautifully appointed in every way but hidden in some little-used corridor.

MORE important than the location of the library, of course, is the choice of a librarian. He should be chosen as carefully as a chief engineer, corporation lawyer, director, or commercial manager. He should be a college graduate, have a library school degree, and preferably some experience in the company's field of industry. In addition to this background, he should, in the words of Ruth Savord,<sup>1</sup> have "Native ability, a sense of humor, mental curiosity, quickness of comprehension, accuracy, resourcefulness, breadth of vision, initiative, and tact; all are needed. These are fundamental because by most standards they are innate and not a matter of education. The potential special librarian should have a broad cultural, literary, and factual background, as well as specialized training in a chosen field of activity. He should develop the ability to analyze all the factors involved in the problem in hand, to separate the essential from the nonessential, and to condense and present all pertinent facts."

<sup>1</sup> *Special Librarianship As a Career*, by Ruth Savord, 1945 ed. Special Libraries Association, New York, New York.

This is all by way of saying simply that the value of the library depends upon its librarian—its fate is in his hands.

The size of the library's staff will, of course, depend upon the amount of service it renders. From the beginning, a minimum of two people, the librarian and a competent assistant librarian or clerk-secretary, is required. Later, as the library grows in importance, it will be found necessary to add professional library assistants and clerical help.

ONE of the most important details connected with planning and maintaining a library is material acquisition. This includes books, periodicals, newspapers, and other printed or reproduced material. It will be found that the nucleus of most libraries when they are first organized is material contributed by the various departments in the company.

Most organizations have over the years, probably without realizing it, built up what might be called departmental libraries. Much of this material is of a duplicate nature, arising from the fact that frequently one department has no idea that another department has in its files the very report or book it vitally needs. Therefore, it orders or writes for a second or third copy as the case may be. This is one of the strongest reasons for the establishment of a centralized library where all material can be filed, indexed, and catalogued so that it is immediately available to everyone in the company.

There will always be some die-hard who will want to refuse to part with his department's collection. When this occurs a list of what it contains can be kept in the library so that, if and when



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necessary, it may be borrowed or referred to. This same method can be followed if any department head wishes to purchase material for his department's special use. Even so, all such material really should be ordered through the library, and charged to that department's account. In this way, a record is kept on file in the library as to its location.

So that the most up-to-date books, both text and reference, magazines, services, and government documents of definite interest to the organization may be purchased as needed, the up-to-date librarian constantly scans the various book lists, periodicals, publisher's blurbs, and other publication notices as they pass across his desk. Even if it is not his intention at the moment to buy a certain publication, or subscribe to a certain magazine or service, he will make note of this new material so that if it is wanted later he will be familiar with it. Many librarians, when in doubt about a purchase, will send for the volume on approval or request a sample copy, in the case of a magazine or service. Then he can ask someone in the organization to review it and give his opinion as to whether or not it should be added to the library.

The question uppermost in the minds of executives when they have considered the possibility of establishing a library within their organizations is "What will it cost?" In answering this question, two items should be considered—the initial cost and the annual budget. These will depend primarily on the size of the library, although most libraries start in a small way and then grow in stature as their services are recognized and more work

falls upon the shoulders of the librarian. The annual salary of an experienced librarian will range between \$4,000 and \$6,000, his assistant, \$2,700-\$3,600, and a clerk-secretary, \$2,400-\$3,000.

Books, subscriptions to periodicals and services, memberships in national organizations, newspapers, etc., will cost approximately \$3,000 the first year. The cost of furniture will depend upon the size of the library. In many companies this cost may be small, with the exception of shelving, card catalogue cases, and vertical files, since there undoubtedly are desks, tables, and chairs in storage which could be utilized. However, no matter whether the room is furnished with new furniture or with furniture already available, it should be borne in mind that the library is to be one of the most used places in the organization and, therefore, should be made attractive. Lamps and leather chairs go a long way to entice a timid employee into the "holy of holies" as some people still seem to regard a library. Once an individual feels at home, he will return time and time again and become one of the library's best boosters.

I HAVE spoken of the initial cost of organizing a library. I should now like to stress the importance of having the librarian prepare an annual budget. Other departments of the company are required to compile such a budget and there is no reason why the library should be exempt. It is advantageous to the librarian to operate on one. Then he can produce statistics to show how much it has cost the library for books, services, or other items during a certain year; also, why any increase

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or decrease in expenditures is being made in the next year's budget.

The annual budget might well include the following:

- Books, pamphlets, photostats, microfilms, etc.

- Periodical subscriptions, including financial or other special services.

- Printing.

- Binding.

- Equipment.

- Travel expenses (professional meetings and visits to other libraries).

- Memberships in library or other professional associations.

These items are more or less self-explanatory, with the exception, perhaps, of the last two. For the new librarian, visits to other libraries are most essential; it is through these visits that he becomes familiar with procedures which have proved satisfactory elsewhere and which frequently can be adapted to fit his own problems. There are also conferences and conventions to attend during the year in the library field or in a field allied to his organization's interests. These are generally held in various parts of the country and attendance at them involves hotel accommodations, railroad fare, meals, etc. If there is an item in the budget to cover such expenses, it will avoid any questions being raised later.

### *Conclusion*

**A** WELL-ESTABLISHED, efficiently managed library can save the company many times the amount of money expended on its organization and operation. The bringing of one vital statistic to the right person may

be just what is needed to settle an argument in a labor dispute. One public utility librarian in Canada has cited a recent request whereby, through information received through her department, time and salaries were both saved.

Frequently, our engineers have told me that the material sent them on certain subjects had saved the company thousands of dollars. Often an executive has found a trip to Washington, New York, or some other city to be unnecessary by first consulting his librarian to see if he has or can secure the information needed. More often than not he either has the information or can easily obtain it. Examples such as these are more numerous than the librarian is aware of, simply because the executive considers the library such an integral part of the organization, that to him it isn't necessary to inform the librarian of this saving. He just takes it for granted that the information needed is always available.

In this article I have endeavored to show the important rôle the library plays or can play in keeping management informed not only of what was done yesterday but what may happen in the future. The library should be the company's "searchlight," peering into the years ahead and not, as has been so often erroneously assumed, the "rear view mirror," collecting historical items of a dead past. All industry needs adequate tools to aid its development and to keep it abreast of the times. One of the most vital of these is the company library—truly a tool of management.

# Washington and the Utilities



## *REA Mildly Criticized*

**A**FTER an investigation extending over a period of several months, the Government Operations Subcommittee of the House Committee on Expenditures in the Executive Departments has issued a report which gives the Rural Electrification Administration a fairly clean "bill of health," yet is mildly critical of some practices of the huge lending agency.

The report also indicated the subcommittee staff will make further study of the controversial REA generating and transmission (super co-op) loans, and revealed that not a few rural electric co-operatives are having trouble making both ends meet.

In a 15-point summary of "conclusions, observations, and recommendations," the subcommittee said:

1. The hearings disclosed no need for substantive legislative changes; the REA Act appears to be serving well the purpose for which it was created.

2. For the most part, REA personnel who testified gave the appearance of being "able and competent."

3. The subcommittee is unanimous in its support of adequate electric power at reasonable rates for all rural areas.

4. Rural electric co-operatives, operated efficiently by local people, have filled a need which did not appear feasible to and was not met by private utilities.

5. Poor management has frequently contributed to operating losses sustained by REA borrowers. Out of 991 energized borrowers, 247 or almost 25 per cent operated at a book loss in 1949.

6. In the two-year period ended December 31, 1949, the number of borrowers with yearly operating deficits on the accrual accounting basis increased almost 50 per cent, and the average book loss per borrower almost doubled.

7. REA statistical reports are not fully informative with respect to either deficit co-operatives or delinquent co-operatives: (a) The reports show only current annual deficit borrowers, while cumulative statistics would show more realistically the progress and financial condition of the borrowers. (b) The number of borrowers reported as delinquent is misleading because of time extensions granted, which removed the grantees from technical delinquency. (c) The percentage of co-operatives shown as delinquent is misleading not only because of time extensions granted, but because the number is related to the total number of borrowers rather than to that number in operation sufficiently long to have payments due.

8. There is evidence to show that the REA has allowed some situations badly in need of attention to drag along without prompt corrective action.

9. There appears to be some overlapping or noneffective coordination in the functioning of the management division and the finance division, with particular reference to auditing, accounting, and financial matters.

10. Meritorious accomplishment of wide area coverage has resulted in diminishing feasibility for expanding distribution systems. This has been accompanied by a reduction in the need for new distribution loans. Thus with

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respect to providing electric service the major activity of the application and loans division involves generation and transmission facilities and the heavying up existing systems.

11. Periodic reports required from borrowers should be simplified where possible, and the material contained therein should be put to prompt use in promoting administrative efficiency.

12. The complicated formula and system to arrive at "times standard debt service earned" should be reviewed for clarification and simplification.

13. The administration's uniform system of accounts prescribed for cooperative borrowers should be reviewed for possible clarification.

14. There is no clear congressional intent with respect to area coverage.

15. During the course of the hearings, the subcommittee received certain information with respect to generating and transmission loans. Based upon this information the subcommittee has directed that further staff study be made, with a view to future hearings and the issuance of a final report.

WITH respect to point 15, it is noted here that the Senate Agriculture Appropriations Subcommittee recently expressed concern over the increasing number of generating and transmission loans and recommended a study of the subject by the full Agriculture and Forestry Committee to determine if special legislation is needed. Two pending bills by Senator Thomas (Democrat, Oklahoma) and Representative Boyd Tackett (Democrat, Arkansas) would require congressional approval of each proposed super co-op loan, but there is little likelihood of action on either measure by this (81st) Congress.

As these two bills seemed headed for oblivion, and the House subcommittee did not indicate its disapproval of the generating and transmission type loan, REA appeared to be accelerating its field investigations of a number of pending super co-op applications. This might indicate REA plans to have these applica-

tions in readiness for prompt allocation of funds should Congress adjourn this month without further comment or action.

### *Central Arizona Project Stirs*

As Congress moved toward either adjournment or a series of relatively inactive recesses, there have been efforts by proponents of the Senate-approved Central Arizona project authorization bill (S 75) to get affirmative House action. The Bureau of Reclamation has pressed the project, with some modifications, as necessary to defense. Elimination (for the time being) of irrigation features comprised the "modifications." Representative Norris Poulson (Republican, California), active opponent of the project, promptly alerted members of the House Public Lands Committee to what he termed "subterfuge."

Representative John R. Murdock (Democrat, Arizona), chairman of the Public Lands Subcommittee on Irrigation and Reclamation, recently prevailed upon the subcommittee to accept an amendment specifically authorizing an appropriation of \$596,000,000. The Senate version merely authorized "such sums as may be necessary." The Bureau of Reclamation has informally estimated the project would cost \$732,000,000.

Murdock believed that the smaller figure might lessen opposition to the project and gain a favorable report by the subcommittee. He explained that his immediate object is to get the measure passed during the present Congress in order that the Supreme Court could hear arguments of the state of California against the proposal, as provided by a Senate amendment which bars commencement of the project until the high court has adjudicated the disputed claims of California to a certain volume of Colorado river water.

However, he has been unable to assemble a quorum of the subcommittee for executive action, nor is it likely that a quorum will be present in Washington during the remainder of the present con-

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gressional session. There is also the possibility that—even with a quorum present—the opposition would be in the majority, a situation that has existed since the measure first came before the House group.

### *Withdrawal of Anti-CVA Amendment*

THE decision of Senator Henry C. Dworshak (Republican, Idaho) to withdraw his anti-Columbia Valley Administration amendment to the Defense Production Act of 1950 (controls bill) was not due to any timidity on his part. His move was astute, in that it would put President Truman in the position of repudiating his Senate leadership should he create a CVA, or any other similar agency, by executive order under the broad powers carried in the act.

When Dworshak offered his amendment, Senate Majority Leader Scott W. Lucas (Democrat, Illinois) declared the President has no intention of using his control powers to create a CVA, while Senate Banking and Currency Committee Chairman Burnet R. Maybank (Democrat, South Carolina), author of the act, said the committee did not construe the measure as granting to the President authority to create any valley authority or administration.

After these assertions by Lucas and Maybank on the floor of the Senate became a matter of record, defeat of the Dworshak amendment could have been construed by the President as tacit congressional approval of creation of a CVA, or any number of valley authorities, by executive order.

### *Why Commerce?*

OSTENSIBLY and for "on-the-record" purposes, the Senate desired controls, allocations, and priority powers in the Department of Commerce to avoid "scattering" government controls among a number of agencies, or to avoid the creation of a new "super-duper" defense setup. Also, according to Senator Johnson (Democrat, Colorado), author of

this amendment to the controls bill, concentration of controls functions in this one agency would make their transfer far simpler should our military operations demand creation of some new organization similar to the War Production Board of World War II. Although twice approved by the Senate, the Johnson amendment was finally thrown out of the bill in conference under heavy pressure from the White House. So, the President now has a free hand.

Johnson's amendment drew the fire of the public power group through Senator John J. Sparkman (Democrat, Alabama) who pointed out that Commerce, not the Interior Department, would control the distribution and allocation of power generated at government dams. Although there is no on-the-record comment by members of the upper chamber, not a few of them supported the Johnson amendment for the very reason that Sparkman complained of.

But, deeper than the distribution of electric power, natural gas, and oil, was a senatorial distrust of the administration's advisers—the men who surround the President and aid him in policy-making, which had not shown any marked degree of firmness up to the time the Senate acted on the controls measure.

Off-the-record comments by Senate members of both parties indicated they had no feeling the President would abuse his powers under the act, or that he might use them for some political advantage. But, they pointed out, the President, because of his heavy burden of duties, must look to his "inner circle" for guidance, even delegating authority to them.

And it was this group of advisers the Senate feared. Too many of them would suggest this defense authority for some favored agency, that authority for another, until Washington became a crazy quilt of overlapping bureaucracies working at cross-purposes, many of them propagating ideas and theories inconsistent with the smooth functioning possible if allocation controls were in the hands of an agency familiar with the problems of business and production.





# Exchange Calls And Gossip

## *New Rules Govern Record Preservation*

THE Federal Communications Commission last month issued an order separating its rules governing preservation of records by common carriers by rescinding the present Part 42, governing preservation of common carrier records in general, and replacing it with a new Part 45, covering preservation of records of telephone carriers, and a new Part 46, applying to records of wire-telegraph, ocean-cable, and radiotelegraph carriers.

This proposal, made in September, 1949, was prompted by determination that the records maintained by telephone and telegraph carriers preclude uniform descriptions and retention periods. The new lists of items for each classification represent the deletion of obsolete material and the addition of new items. The subdivisions under the different items are more descriptive of present-day records, and provide greater flexibility with respect to prescribed retention periods. For example, they permit the destruction of voluminous correspondence and other records after the expiration of a period sufficient to establish the validity of the basic records.

Storage space problems of the industry are further met by reduction in the prescribed periods of retention of certain records, and by permitting microfilming of other records required to be retained. In addition to microfilming, recognition is given to such modern record-preservation methods as tabulating cards, humidified storage, etc.

Requirements for indexing records were modified to permit the maintenance

in the principal office of the carrier of a general descriptive list of the records, showing their locations, with a detailed index maintained only at the point where the records are kept. Copies of the index are no longer required to be filed with the FCC. Also eliminated were the requirements for periodic filing with the commission of resolutions of appointment of a supervisor for destruction of records, and for the filing of certificates involving the accidental destruction of records, except where such destruction is premature.

## *Commissions Reported Restive*

THE state commissions are said to be growing restive over the spread between intrastate and interstate toll rates charged by telephone companies. Intrastate toll rates have been moving up along with local exchange rates under state commission orders. But interstate long-distance rates, subject to the Federal Communications Commission, remain the same.

The Wisconsin Public Service Commission recently authorized the Wisconsin Telephone Company to increase intrastate toll rates by \$1,932,000 annually. The company had requested an increase of \$6,000,000 for both toll and exchange service. The commission denied the company any increase in exchange rates. A bulletin, recently issued by the National Association of Railroad and Utilities Commissioners for its members, stated that the action of the state commission, in this case, "serves to point up the seriousness of the increasing disparity between intrastate and interstate toll rates and the problem confronting state com-



## EXCHANGE CALLS AND GOSSIP

missions in prescribing a level of reasonable exchange rates that will support the whole service and without subsidizing state toll service."

### *Rate Increase Approved*

THE Alabama Public Service Commission last month approved new rates for Southern Bell Telephone & Telegraph Company, averaging 15.4 per cent increase in the state. While that is the average increase, the specific increases are: toll, 18.1 per cent; residence, 6.9 per cent; and business, 23.1 per cent. All three commissioners signed the order.

The boosts will give Southern Bell \$3,307,509 a year more than it has been getting from Alabama. The company will receive, as a result, 6.67 per cent on its investment in the state instead of the 3.74 per cent it has been getting.

Company officials, arguing for the increases, said that heavy increases in company expenses made the boosts necessary.

### *Court Nullifies Order*

AN Illinois Commerce Commission order was vacated in an action that may mean higher rates for Illinois Bell Telephone Company patrons. Circuit Judge William R. Dusher last month nullified the commission's order of October 7, 1949, which granted \$22,785,015 annually in higher rates to Illinois Bell. Both the utility and the subscribers appealed the order. The company contended the amount of increase was too low. The patrons maintained it was too high.

Illinois Bell issued a statement saying it could "not comment on Judge Dusher's decision until we have studied it and discussed its import with the commission." A commission spokesman said it would not comment until its legal staff studied the ruling.

"If the decision supports the company's need for adequate earnings, as preliminary reports indicate, it will prove to be in the interest of the public as well

as the company," a Bell statement set forth.

When Bell first asked for higher rates, it placed the value of its property at \$510,377,881. In formulating the amount of the rate increase it granted last October, the commission fixed the "fair value" at not more than \$365,676,465. Judge Dusher, in his "memorandum of decision," declared the commission should not have ignored the company's estimate. By so ignoring, he said, the commission violated a rule set down in previous utility cases before the U. S. Supreme Court.

This rule, he added, is that "one of the elements to be considered to establish a fair valuation must be the cost to replace an item at present costs."

The commission, in its order, said estimates of reproduction costs now are "entitled to no weight in this case."

### *Court Again Stays Award*

THE New Jersey Supreme Court recently ordered the stay of an arbitration award to 11,000 operators of the New Jersey Bell Telephone Company pending its decision on the company's appeal from the pay increase.

Chief Justice Vanderbilt directed that the case be ready for argument at the opening session of the supreme court's new term September 11th. He ordered the company to deposit \$1,000,000 security with the court, the sum to be held for benefit of the operators in the event the court rules against the company.

At issue was the award by an arbitration board appointed by Governor Driscoll under the state's utility antistrike law. The board awarded most of the operators a \$2.50 per week pay increase, a limited union shop, and other benefits. The company appealed to the appellate division of the superior court, contesting the order as well as the law under which it was granted. That court upheld the award on August 8th.

Subsequently, the company asked the appellate division to stay its mandate pending an appeal to the supreme court.

## PUBLIC UTILITIES FORTNIGHTLY

When that application was denied, the company asked the supreme court for a stay. Granting that motion on August 21st, the supreme court ordered the company to file and serve its brief on the appeal by August 29th. New Jersey Traffic Division 55 of the CIO's Communications Workers of America, representing the operators, was directed to file its answering briefs by September 5th and the company to serve its reply brief, if any, by September 8th.

### *Seeks Rate Increase to Expand*

As the first step in a \$38,000,000 construction program planned in Arkansas by the Southwestern Bell Telephone Company, the state public service commission has been asked to approve a new schedule that would increase rates by about \$4,500,000 a year.

Specific rates schedules were being worked out by the company. Warren E. Bray, general manager, said despite the general rate increase of two years ago—its first in twenty-five years—the company was earning only 1.8 per cent on its investment. Taxes will reduce the increased gross income from the proposed new rates from \$385,000 a month to \$228,000 a month. At present, he said, the company is earning less than two cents on every dollar invested in the business in Arkansas.

Mr. Bray said although the company has spent \$35,000,000 to improve and expand service in Arkansas in the past five years, there still are more than 8,000 unfilled orders for service and 15,000 requests from 4-party line subscribers for individual or 2-party service. He added new orders are coming in at the rate of 3,600 monthly. The company now has more than 200,000 telephones in service compared with 110,000 at the end of the war in 1945.

### *Longest Relay Link Ready*

THE world's longest microwave radio relay link, an 838-mile chain of

towers between New York and Chicago, was scheduled to go into regular service on September 1st.

Built at a cost of \$12,000,000 by the American Telephone and Telegraph Company, the communications super-highway will be capable of handling hundreds of telephone conversations and several television programs. It will supplement existing coaxial cable routes between the East and Midwest and eventually will serve as part of the backbone television route across the continent.

Its 34 towers, spaced about 25 miles apart, relay television programs or telephone conversations from horizon to horizon along the 838-mile route quicker than the blink of an eye.

### *Agreement Spur to Color TV*

A COÖPERATIVE agreement, expected to result in color television for industrial, business, hospital, governmental, and military use, was concluded recently by Remington Rand, Inc., and the Columbia Broadcasting System. Remington Rand is one of the largest manufacturers of office machines and business and industrial equipment. It also has been manufacturing and distributing black-and-white television equipment for industrial use under the name of "Vericon."

CBS will provide the designs and do the testing, while Remington Rand will manufacture, sell, and install the color television equipment. Existing organizations of both companies will be used for the project.

At this time, the arrangement does not cover the use of the new television equipment for color broadcasting to the public because the Federal Communications Commission has not yet rendered a decision in the color television case. Thus, the equipment will be used only over closed circuits (intercity relay facilities of the telephone company), although it makes use of the CBS color television system developed by the network and recommended to the FCC for public broadcast use.

# Financial News and Comment

By OWEN ELY



## EEI-AGA Committee Indicates Views on Revised Basis for EPT

REFERENCE already has been made in this department to the work of the EEI-AGA subcommittee which is preparing a tax memorandum for presentation to Congress. The study is still incomplete, and copies are not now available to the press. However, two members of the committee made addresses before the luncheon forum of the New York Society of Security Analysts on August 16th—Charles Wigand of Commonwealth Services, and Bernard S. Rodey, Jr., of Consolidated Edison Company. These talks may be summarized as follows:

Mr. Rodey felt that the increase in the Federal income tax rate from 38 to 45 per cent should probably be recoverable through rate adjustments, "subject to expected regulatory inertia, inasmuch as growth and decreased unit costs may offset part of the increased tax cost. However, the impact of an excess profits tax along the pattern of the last one is quite another matter. . . . The excess profits tax is not what its name denotes. . . . the word profits has no place in the name. The adjective really modifies the noun 'tax' and not the noun 'profits.' . . . The excess profits tax is merely one component of a 3-part tax rate."

He pointed out three difficulties confronting the analyst in trying to determine the future impact of excess profits tax on the earnings of any particular utility company: (1) lack of knowledge as

to what the exact tax formula will be; (2) differences between published net income, and the taxable net income as reported to the Treasury Department (not usually available); and (3) the difficulty of forecasting taxable earnings in 1951. Mr. Rodey explained in a detailed mimeographed statement the difficulties in using public reports as the basis for computing statutory invested capital as well as profits.

To illustrate the impact of EPT as well as the varying estimates based on public data *versus* complete data, he presented the table shown on page 372.

The most favorable results in the table based on complete data showed a loss of 44 per cent of 1949 share earnings for company A, 43 per cent for B, 1 per cent

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## PUBLIC UTILITIES FORTNIGHTLY

for C, 40 per cent for D, and 18 per cent for E.

Mr. Rodey outlined the evolution of the old wartime law, remarking—"We haven't yet forgotten the demoralizing effect of the 15-cent dollar days. . . . Under the guise of increasing the yield, modifications of relatively small tax revenue effect were introduced which proved to be merely penalties on sheer corporate size. Certainly every effort should be made to obtain a more equitable setup for all corporate industry as well as for the utilities, which otherwise might be seriously hampered in meeting their heavy future financing to care for the present rate of expansion as well as the prospective increases for any new defense effort."

He pointed out that there can be no real *excessive profits* until provisions have been made for the normal income tax, and that the higher the latter tax is, the more important this priority becomes. This should be the first step toward making an EPT "more equitable and less capricious."

**T**HE old EPT formula applied to aggregate corporate income for 1950 might, he estimated, produce over \$10 billion—more than would be necessary from this source. But his suggested new method of figuring EPT would permit raising at least \$5 billion of revenue. This result was derived as follows: taxable corporate income for 1950 may be esti-

mated at \$43 billion, and after applying the 45 per cent income tax there would be a balance of \$24 billion. The "average earnings" base of \$17 billion (average 1947-49 earnings of \$34 billion, less a 45 per cent income tax, times 90 per cent) would then be deducted, leaving \$7 billion; and a tax of 75 per cent of this amount would raise \$5 billion.

Mr. Rodey stated that the electric utilities will need to raise \$6.75 billion for new construction through 1953, of which \$3.5 billion will have to be raised by sale of securities. Since the debt ratio has increased from 46.5 per cent in 1945 to practically 50 per cent at the present time, he thought it might be necessary to raise half the new money through equity financing (presumably to restore the old debt ratio). This the utilities would be unable to do if earning power were substantially impaired by EPT. Moreover, high EPT taxes would again (as in the last war) provide a temptation for local politicians to demand substantial refunds to customers (as occurred in Michigan), on the ground that the utility would only have to stand one-seventh of the refund.

**M**R. WIGAND in his address stated that there are certain fundamental principles on which members of the joint subcommittee are in agreement, as follows:

(1) That any excess profits tax law applied to regulated utilities should be applied on a formula which corresponds

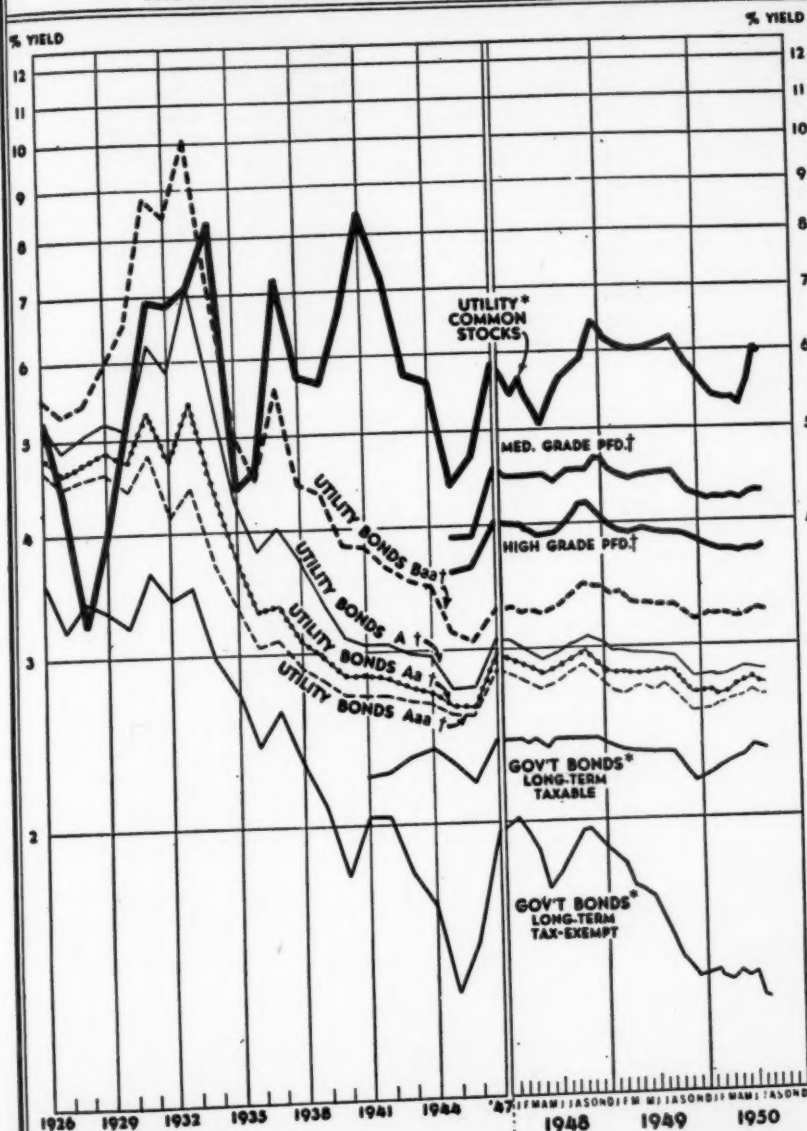


Company**	Actual Earnings 1949	Earnings After Impact of Excess Profits Tax*			
		Average Earnings Basis		Invested Capital Basis	
		Complete Data	Published Data	Complete Data	Published Data
"A" .....	\$1.80	\$ .94	\$1.03	\$1.01	\$1.11
"B" .....	1.73	.91	1.05	.98	1.13
"C" .....	3.03	3.01	2.47	2.67	1.82
"D" .....	4.57	2.73	2.71	2.64	2.66
"E" .....	2.22	1.52	1.40	1.82	1.69

\* The excess profits tax formula used assumes a flat 6 per cent rate of credit on the statutory invested capital base for the year 1949 and assumes an average earnings credit at 75 per cent of the average excess profits tax income for the years 1946 to 1949, inclusive. An excess profits tax rate of 85 per cent was applied before the computation of normal and surtax at 45 per cent.

\*\* While Mr. Rodey did not identify the companies designated by letters, the 1949 earnings figures would approximate those of the following companies in the order named: Philadelphia Electric, Detroit Edison, Cleveland Electric Illuminating, Consolidated Gas of Baltimore, and Consolidated Edison.

# UTILITY FINANCING COSTS HISTORICAL AND CURRENT YIELD TRENDS





## PUBLIC UTILITIES FORTNIGHTLY

to the public utility commission's base for computing rate of return. Under such a formula, if utilities earned an excessive return because of increased earnings and economies which might result from a better load factor under war production conditions, any such excess would be subjected to Federal excess profits taxation.

(2) Under any method of determining excess profits net income, deductions should be allowed for normal tax and surtax in ascertaining the income which will be subjected to excess profits tax. This treatment was accorded under the second revenue act of 1940 but discontinued thereafter.

(3) Under the invested capital method of determining excess profits net income, borrowed capital should be included at 100 per cent instead of the 50 per cent provided in the prior law.

(4) Under either the invested capital method or the average earnings method of determining excess profits net income, there should be allowed an increased credit of substantially 8 per cent on all capital additions, whether equity, borrowed, or earnings and profits made during the excess profits tax year and subsequent years.

(5) Due to the time lag in placing substantial amounts of construction into service, an additional credit should be given for capital additions created within two years prior to the effective date of an excess profits tax law.

(6) Under the invested capital method of determining excess profits net income, interest on 100 per cent of borrowed capital, which is included in invested capital, should be added back to obtain excess profits net income.

(7) Adequate relief provisions should be incorporated in any law to take care of hardship cases.

## NARUC 1944 Report Stressed EPT Inequalities

A SPECIAL study was prepared on EPT by a committee of the National Association of Railroad and Utilities Commissioners in 1944, in which somewhat similar recommendations to those recited above were made for changes in the method of levying an EPT. NARUC recently appointed a new committee to study the effects of proposed new EPT legislation. State commissions realize that effective state regulation of rates is impracticable while heavy EPT taxes are in effect.

This unprejudiced opinion of the state regulatory bodies is likely to impress the congressional committeemen.

The NARUC report of 1944 emphasized that: (1) Under the 1942 Revenue Act EPT liabilities were discriminatory in effect on utilities rendering identical services, and also between classes of utilities. (2) Constructive and effective state regulation cannot be continued with EPT in effect. (3) The name excess profits tax has been misconstrued by the public—it was meant to be an excess tax (separate from normal and surtax) on profits, rather than a tax on "excess profits." (4) The complex rules for calculating EPT result in "a combination of figures that include items which are not regarded as revenues or as expenses in a rate proceeding." (5) The net result is "we have some public utilities paying an excess profits tax when they are not earning a fair return on the money invested in their properties."

INVESTED capital, the report stated, as used in the statute, is not synonymous with investment in the properties or with the fair value of properties for rate-making.

Taxes Actually Paid .....	
Taxes Which Would Have Been Paid, without Savings Obtained by Nonrecurring Charges to Income .....	
Amount of Cash Savings .....	

Income Tax	EPT	Total
\$20.6	\$17.1	\$37.7
22.9	11.0	33.9
D23	\$ 6.1	\$ 3.8



## PUBLIC UTILITIES FORTNIGHTLY

ing purposes. The amount of the EPT payment or liability may be determined by the level of income during the base period, or by a credit of 8, 6, and 5 per cent on invested capital as defined. It is also affected by the proportion of debt in the security structure of the utility, or by other factors which do not enter into a determination of a fair return. As a result any particular utility may be required to pay an EPT while in fact it is earning less than an adequate return on its rate base.

The railroad commission of California (subsequently reconstituted under the

title of "public utilities commission of California") made a study of a number of utilities in that state and arrived at the figures (millions of dollars) shown in the table on page 374.

Staff members of the commission made a study of the rate of return which the utilities earned before paying an excess profits tax, and discovered *that one very large utility could earn only 4.67 per cent before being compelled to pay an EPT while another large utility could earn 6.12 per cent.* For all the twelve utilities, the rates varied from 4.67 per cent to 7.03 per cent.



### ESTIMATED EFFECTS OF INCREASED TAXES ON UTILITY EARNINGS\*

	1949 Share Earn.	Est. 1950 Share Earn., 38% Tax.	Est. 1950, 45% Tax & 80% EPT	Present Dividend Rate
Boston Edison .....	\$2.90	\$3.15	\$2.62	\$2.80
Cent. & South West .....	1.40	1.55	1.14	.90
Cincinnati G. & E. ....	2.78(a)	3.00	2.24	1.80
Commonwealth Edison .....	2.13	2.25	1.80	1.60
Consolidated Edison .....	2.22(b)	2.60(b)	2.23(b)	1.60
Consumers Power .....	2.54	3.40	2.40	2.00
Dayton P. & L. ....	2.44(a)	2.90	2.03	2.00
Detroit Edison .....	1.74(b)	2.25(b)	1.65(b)	1.20
Florida Power Corp. ....	1.57	1.80	1.41	1.20
Florida Power & Light .....	2.52(c)	2.75	1.97	1.20
Gulf States Util. ....	1.73(a)	2.00	1.42	1.20
Indianapolis P. & L. ....	2.89	3.30	2.51	1.60
Iowa-Illinois G. & E. ....	2.79	2.80	2.27	1.80
Iowa Power & Light .....	1.69	1.90	1.63	1.40
Kansas City P. & L. ....	1.93	2.40	1.85	1.60
Kentucky Utilities .....	1.48	1.75	1.16	.80
Montana Power .....	2.49	3.10	2.25	1.40
New England Elec. ....	1.30	1.50	1.13	.80
New York State E. & G. ....	1.92	2.25	1.62	1.70
Niagara Mohawk .....	1.94	2.25	1.70	1.40
Northern States Power .....	1.04	1.10	.80	.70
Ohio Edison .....	2.95	3.30	2.63	2.00
Pacific G. & E. ....	1.70(a)	2.40	1.41	2.00
Penn. Power & Light .....	2.13	3.00	1.83	1.60
Phila. Electric .....	1.81	2.20	1.58	1.50
Pub. Service of Colo. ....	2.22	2.35	1.62	1.40
Pub. Service of Ind. ....	2.48	2.60	1.97	1.80
Pub. Service E. & G. ....	1.93(d)	2.00(d)	1.55(d)	1.60
Southern Calif. Edison .....	3.11	3.50	2.75	2.00
Utah P. & L. ....	2.31	2.75	2.16	1.80
Virginia E. & P. ....	1.47(e)	1.70	1.13	1.20
West Penn. Elec. ....	3.31	3.45	2.58	1.80
Wisc. Elec. Power .....	1.42(a)	1.90	1.40	1.20
Wisc. P. & L. ....	1.25(a)	1.70	1.05	1.12

\* Selected figures from a table prepared by Josephthal & Co. (a) Adjusted for stock sold in 1950. (b) Before allowing for conversion of debentures. (c) Adjusted to eliminate non-recurring charges. (d) Excluding dividends received from Public Service Coordinated Transport. (e) Adjusted for conversion of debentures.

## PUBLIC UTILITIES FORTNIGHTLY

### *Tax Escalator Clauses in Electric Rate Schedules*

OVER the last year or so many electric utility companies have been arranging fuel clauses in their rate schedules, and in general the regulatory commissions have been agreeable to the change. These clauses now afford some protection against current inflationary trends. A few companies have experimented with broader escalator clauses, and some have tried to tie their rates to the wholesale price index of the U. S. Bureau of Labor Statistics, but this idea has not proved very practicable as yet due to the complexity of actual administration.

A number of utilities have also tried to protect themselves against higher taxes, but in most cases these clauses refer only to taxes on revenues, kilowatt-hour sales, meters, etc., and therefore cannot be used for protection against higher income taxes. The following companies' tax clauses would appear broad enough in their language to cover the excess profits tax as a "new tax," though they probably would not cover an increase in the income tax rate in all cases:

Tucson Gas, Electric Light & Power  
Frontier Power  
Montana Power  
Public Service of New Mexico  
Narragansett Electric (indus. power)  
Green Mountain Power  
Columbus & Southern Ohio Electric

RECENTLY Cincinnati Gas & Electric, through negotiation with the city of Cincinnati and the Ohio state commission, has obtained in its gas rates what is perhaps the broadest escalator clause employed by any big utility company. This escalator clause provides for quarterly adjustments in rates to offset changes in general costs, including the wholesale cost of gas, wages, and taxes—also providing for changes in income tax rates and the method of their application. The escalator clause for gas rates has been approved by both the city of Cincinnati and the state commission, and became effective June 29, 1950. A similar

clause for electric rates is also under consideration.

This is a unique and notable attempt to stabilize utility earnings, through the use of a formula, by small but frequent readjustments in rates. Other formulas for adjusting rates to economic trends, such as the Washington plan and the elaborate formula formerly used by New Jersey Power & Light (which was geared somewhat to security yields as a measure of fair rate of return) have proved generally unsatisfactory. The Cincinnati plan, if it works successfully, should be a fine contribution to the effective regulation of utility rates, and might in time be widely adopted by other companies in states with regulatory standards similar to Ohio's.

### *Divergent Trends in Money Rates and Bond Yields*

THE old "feud" between the Treasury Department and the Federal Reserve Board seems to have broken out again, with Board Chairman Thomas McCabe apparently having a little better of the argument with Treasury Secretary John Snyder.

The Federal Reserve wants to use money rates as a club to fight inflation—although it has always seemed very doubtful to this commentator whether tightening of money rates has much effect in curbing runaway inflation. Certainly Congress and the administration could find much more effective ways of doing the job, if they weren't stymied by political motives. At any rate central bank control of money rates is the traditional bank remedy for inflation, and it seems unlikely that bankers will ever abandon the theory, however unsuccessful it may have proved in the past in checking extremes of the business cycle.

Secretary Snyder's object, of course, is to hold interest costs on public debt at a minimum—the traditional motive of Treasury heads. The moves between the Reserve and the Treasury resemble a delicate game of chess. On August 18th the Treasury offered 13-month notes at 1.25 per cent, although that percentage was

# FINANCIAL NEWS AND COMMENT

the going rate for a 12-month maturity. The Federal Reserve promptly increased the interest rate on loans to commercial banks from  $1\frac{1}{2}$  per cent to  $1\frac{3}{4}$  per cent and also permitted the prices of short-term issues to drop and the yields to increase. The National City Bank raised call money rates from  $1\frac{1}{2}$  per cent to  $1\frac{3}{4}$  per cent. And the Treasury recently had to pay up to 1.285 per cent for \$1.1 billion of 91-day bills compared with 1.174 per cent two weeks earlier.

**T**HE battle over short-term money rates has not had much effect over other segments of the bond market. Municipals have been strong, due to the excitement over increasing Federal taxes. The Dow-Jones bond average has advanced nearly three points from the low of early July, but this is probably due to the special strength in rail issues. The yields on high-grade utility bonds have declined (see chart, page 373) while yields on Baa issues have increased.



## FINANCIAL DATA ON DIVIDEND-PAYING ELECTRIC UTILITY STOCKS

	8/22/50 Price About	Indicated Dividend Rate	Approx. Yield	Share Cur. Period	Earnings* Prev. Period	% In- crease	Price- Earnings Ratio	% of Rev. Avail. for Common Stock
<b>Revenues \$50,000,000 or over</b>								
S American Gas & Elec. ....	45	\$3.00	6.7%	\$4.39j	\$4.11	7%	10.3	—
B Boston Edison .....	40	2.80	7.0	3.00j	2.88	4	13.3	11
S Central & South West ....	14	.90	6.4	1.49j	1.29	16	9.4	—
S Cincinnati G. & E. ....	30	1.80	6.0	3.04j	2.59	17	9.9	15
S Cleveland Elec. Illum. ....	39	2.40	6.2	3.42j	2.59	32	11.4	14
S Commonwealth Edison ....	28	1.60	5.7	2.08j	1.91	9	13.5	11
S Consol. Edison of N. Y. ...	29	1.60	5.5	2.53j	2.28	11	11.5	8
S Consol. Gas of Balt. ....	24	1.40	5.8	1.90j	1.26	51	12.6	11
S Consumers Power .....	31	2.00	6.5	2.85j	2.26	26	10.9	14
S Detroit Edison .....	22	1.20	5.5	2.10j	1.67	26	10.5	11
C Duke Power .....	87	4.00	4.6	8.71j	7.31	19	10.0	14
S General Pub. Util. ....	16	1.20	7.5	2.23j	1.72	30	7.2	—
S Middle South Util. ....	16	1.10	6.9	1.77j	—	—	9.0	—
S New Eng. Elec. System ...	12	.80	6.7	1.30d	.98	32	9.2	—
S Niagara Mohawk Power ..	21	1.40	6.7	2.15j	1.74	24	9.8	—
S North American .....	17	1.20	7.1	1.44j	—	—	11.8	—
S Northern States Power ....	11	.70	6.4	1.04j	.87	20	10.5	15
S Ohio Edison .....	31	2.00	6.5	3.18j	2.92	9	9.7	16
S Pacific G. & E. ....	32	2.00	6.3	2.39j	1.66	44	13.4	11
S Penn Power & Light ....	24	1.60	6.7	2.55j	1.98	29	9.4	12
S Philadelphia Elec. ....	26	1.50	5.8	2.17j	1.62	34	12.0	16
S Pub. Serv. E. & G. ....	22	1.60	7.3	2.25d	2.13	6	9.8	7
S So. Calif. Edison .....	33	2.00	6.1	2.92j	2.28	30	11.3	12
S Southern Co. ....	11	.80	7.3	1.22j	1.01	20	9.0	—
O Texas Utilities .....	23	1.28	5.6	2.29j	1.80	27	10.0	—
S Virginia Elec. Power ....	18	1.20	6.7	1.73j	1.21	43	10.4	13
S West Penn Elec. ....	25	1.80	7.2	3.38j	3.44	D2	7.4	—
S Wisconsin Elec. Power ....	18	1.20	6.7	2.08j	1.74	20	8.7	11
<b>Averages .....</b>			<b>6.4%</b>				<b>10.4</b>	
<b>Revenues \$25-\$50,000,000</b>								
S Carolina P. & L. ....	30	\$2.00	6.7%	\$3.09j	\$2.58	20%	9.7	14
O Central Ill. P.S. ....	16	1.20	7.5	1.65j	1.49	11	9.7	15
O Connecticut L. & P. ....	15	.80	5.3	.95j	.88	8	15.8	13
S Dayton P. & L. ....	29	2.00	6.9	2.61m	2.06	27	11.1	15
S Florida P. & L. ....	19	1.20	6.3	2.42j	2.38	2	7.9	14
S Gulf States Util. ....	21	1.20	5.7	1.79j	1.59	13	11.7	18
S Houston L. & P. ....	53	2.20	4.2	4.04j	3.05	32	13.1	19
S Indianapolis P. & L. ....	29	1.60	5.5	3.05j	3.17	D4	9.5	14
S Illinois Power .....	35	2.20	6.3	3.05j	2.99	2	11.5	16
O Kansas City P. & L. ....	26	1.60	6.2	2.02j	1.91	6	12.9	13
S Long Island Lighting ....	12WD	.80Est.	6.7	1.17j	1.10	6	10.3	—
S Louisville G. & E. ....	34	1.80	5.3	3.33j	3.04	10	10.2	14

## PUBLIC UTILITIES FORTNIGHTLY

(Continued)		8/22/50	Indicated		Share	Earnings*	Price	% of Rev.
		Price	Dividend	Approx.	Cur.	Prev.	% In-	Avail. for
		About	Rate	Yield	Period	Period	crease	Common
							Ratio	Stock
O	New England G. & E. ....	14	.93	6.6	1.45ju	1.22	19	9.7
O	New Orleans Pub. Ser. ...	38	2.25	5.9	3.03je	3.09	D2	12.5
S	N. Y. State E. & G. ....	24	1.70	7.1	2.25ju	1.79	26	10.7
O	Northern Ind. P.S. ....	20	1.40	7.0	2.12ju	1.73	23	9.6
S	Potomac Elec. Power ....	14	.90	6.4	.93je	.91	2	15.1
S	Pub. Serv. of Colo. ....	25	1.40	5.6	2.40je	2.10	14	10.4
S	Pub. Serv. of Ind. ....	26	1.80	6.9	2.56je	2.43	5	10.2
O	Puget Sound P. & L. ....	17	.80	4.7	1.86je	1.58	18	9.1
S	Rochester G. & E. ....	29	2.24	7.7	2.69je	2.43	10	10.8
O	Toledo Edison ....	10	.70	7.0	.87j	—	—	11.5
O	West Penn Power ....	32	1.80	5.6	2.08je	2.47	D16	15.4
Averages .....				6.2%				11.2
Revenues \$10-\$25,000,000								
S	Atlantic City Elec. ....	19	\$1.20	6.3%	\$1.60ju	\$1.51	5%	11.9
C	California Elec. Pr. ....	8	.60	7.5	.81je	.62	31	9.9
O	Calif. Oregon Power ....	25	1.60	6.4	2.19ju	2.13	3	11.4
O	Central Ariz. L. & P. ....	12	.80	6.7	1.08je	1.11	D2	11.1
S	Central Hudson G. & E. ...	9	.60	6.7	.74je	.56	32	12.2
O	Central Ill. E. & G. ....	22	1.30	5.9	2.81je	2.09	34	7.8
S	Central Ill. Light ....	33	2.20	6.7	3.12ju	3.02	3	10.6
O	Central Maine Power ....	16	1.20	7.5	1.63ju	1.51	5	9.8
S	Columbus & S. Ohio El. ...	20	1.40	7.0	2.12je	2.14	D1	9.4
O	Connecticut Power ....	35	2.25	6.4	2.30d	1.93	19	15.2
S	Delaware P. & L. ....	21	1.20	5.7	1.74je	1.61	8	12.1
S	Florida Power Corp. ....	17	1.20	7.1	1.61je	1.31	23	10.6
C	Hartford Elec. Light ....	46	2.75	6.0	2.86d	2.77	3	16.1
S	Idaho Power ....	35	1.80	5.1	2.97je	2.56	16	11.8
O	Interstate Power ....	8	.60	7.5	.90je	.85	6	8.9
O	Iowa Electric L. & P. ....	13	.90	6.9	1.40je	1.22	15	9.3
O	Iowa Pub. Serv. ....	21	1.20	5.7	2.33ju	2.03	15	9.0
S	Iowa-Illinois G. & E. ....	26	1.80	6.9	2.69je	2.50	8	9.7
S	Iowa Power & Light ....	21	1.40	6.7	1.87je	1.73	8	11.2
O	Kansas Gas & Elec. ....	32	2.00	6.3	3.47ju	2.63	32	9.2
S	Kansas Power & Light ....	17	1.12	6.6	1.73je	1.52	14	9.8
O	Kentucky Utilities ....	13	.80	6.2	1.40je	1.47	D5	9.3
S	Minnesota P. & L. ....	29	2.20	7.6	3.98ju	3.39	17	7.3
S	Montana Power ....	22	1.40	6.4	2.79je	2.31	21	7.9
C	Mountain States Pr. ....	31	2.50	8.1	3.84je	3.58	7	8.1
O	Oklahoma G. & E. ....	40	2.50	6.3	3.50je	3.12	12	11.4
O	Otter Tail Power ....	18	1.50	8.3	1.89je	—	—	9.5
O	Portland Gen. Elec. ....	26	1.80	6.9	2.74ju	1.75	57	9.5
O	Pub. Ser. of N. H. ....	23	1.80	7.8	1.97ju	1.63	21	11.7
O	San Diego G. & E. ....	14	.80	5.7	1.23je	.65	89	11.4
S	Scranton Elec. ....	14	1.00	7.1	1.25je	1.05	19	11.2
S	So. Carolina E. & G. ....	8	.60	7.5	.95je	.97	D2	8.4
O	Southwestern Pub. Ser. ...	15	1.12	7.5	1.35je	1.18	14	11.1
C	Tampa Electric ....	32	2.00	6.3	3.31je	2.36	40	9.7
O	United Illum. ....	42	2.25	5.4	2.69d	2.53	6	15.6
S	Utah Power & Light ....	25	1.80	7.2	2.85ju	2.36	21	8.8
O	Western Mass. Cos. ....	32	2.00	6.3	2.64d	2.30	15	12.1
O	Wisconsin P. & L. ....	16	1.12	7.0	1.61je	1.15	40	9.9
Averages .....				6.7%				10.5
Revenues \$5-\$10,000,000								
O	Arkansas Missouri Power .	13	\$1.00	7.7%	\$1.83je	\$1.96	D7%	7.1
O	Central Vermont P. S. ....	94	.68	7.2	1.02ju	.61	67	9.3
C	Community Pub. Ser. ....	13	.90	6.9	1.35je	1.36	—	9.6
O	El Paso Electric ....	35	2.00	5.7	3.34je	3.15	6	10.5
S	Empire Dist. Elec. ....	18	1.24	6.9	2.78je	1.64	39	7.9
O	Gulf Public Service ....	12	.80	6.7	1.42a	1.36	4	8.5
O	Iowa Southern Util. ....	16	1.20	7.5	1.88ju	2.03	D7	8.5

SEPT. 14, 1950

# FINANCIAL NEWS AND COMMENT

(Continued)		8/22/50 Price About	Indicated Dividend Rate	Apprx. Yield	Share Earnings*— Cur. Prev. % In- crease			Price- Earnings Ratio	% of Rev. Avail. for Common Stock
O	Lawrence G. & E. ....	36	2.85	7.9	2.92d	2.41	21	12.3	10
O	Lynn G. & E. ....	34	2.00	5.9	1.94d	2.00	D3	17.5	12
O	Madison Gas & Elec. ....	28	1.60	5.7	1.89d	1.64	15	14.8	13
O	Northwestern P.S. ....	10	.80	8.0	1.50je	1.22	23	6.7	11
C	Penn Water & Power ....	32	2.00	6.3	2.12d	4.80	D56	15.1	13
O	Pub. Ser. of New Mexico ..	16	1.00	6.3	1.54je	1.51	2	10.4	17
O	Rockland L. & P. ....	9	.60	6.7	.70je	.63	11	12.9	16
C	St. Joseph Light & Power .	22	1.50	6.8	2.02je	2.06	D4	10.9	11
S	Southern Ind. G. & E. ...	20	1.50	7.5	2.17ju	2.14	2	9.2	16
O	Tide Water Power ....	8	.60	7.5	1.09ju	.91	20	7.3	8
O	Tucson Gas, E. L. & P. ....	22	1.40	6.4	2.26je	2.06	10	9.7	16
O	Western Lt. & Tel. ....	23	2.00	8.7	2.20je	2.20	—	10.5	10
Averages .....				6.9%					10.6
Revenues under \$5,000,000									
O	Arizona Edison .....	18	\$1.20	6.7%	\$1.73je	\$2.22	D22%	10.4	7
O	Bangor Hydro Elec. ....	26	1.60	6.2	2.72je	2.32	17	9.6	14
O	Beverly G. & E. ....	43	2.75	6.4	3.16d	2.10	50	13.6	8
O	Black Hills P. & L. ....	17	1.28	7.5	1.96a	1.55	26	8.7	14
O	Calif. Pacific Util. ....	33	2.40	7.3	4.57je#	3.56#	28	7.2	9
O	Central Louisiana Elec. ...	31	1.80	5.8	3.91m	3.44	14	7.9	22
O	Central Ohio L. & P. ....	31	1.80	5.8	3.07je	2.50	23	10.1	12
O	Citizens Utilities .....	12	.80&Stk	6.7	1.99je	1.87	6	6.0	13
O	Colorado Central Power ...	28	1.80	6.4	2.68je	2.12	26	10.4	13
O	Concord Electric ....	35	2.40	6.9	2.57d	2.17	18	13.6	12
O	Derby G. & E. ....	21	1.40	6.7	1.92d	1.19	61	10.9	10
O	Eastern Kansas Utils. ....	8†	.60Est.	7.1	1.12D-Est.	—	—	7.6	—
O	Fall River Elec. Lt. ....	57	3.60	6.3	4.26d	3.55	20	13.4	20
O	Fitchburg G. & E. ....	44	3.00	6.8	2.78d	2.68	4	15.8	12
O	Frontier Power ....	4	.40	10.0	.84d	1.14	D26	4.8	10
O	Haverhill Elec. ....	34	3.00	8.8	2.80d	1.10	155	12.1	11
O	Lake Superior Dist. Pr. ....	24	1.80	7.5	4.10je	1.57	161	5.9	15
O	Lowell Elec. Lt. ....	42	3.40	8.1	3.35d	2.36	42	12.5	10
C	Maine Public Service ....	12	1.00	8.3	1.33je	1.45	D8	9.0	11
O	Michigan Gas & Elec. ....	22	1.60	7.3	2.05je	2.04	—	10.7	9
O	Missouri Edison .....	9	.70	7.8	1.30je	.89	46	6.9	10
C	Missouri Public Ser. ....	39	2.40	6.2	4.40d	3.92	12	8.9	14
O	Missouri Utilities .....	16	1.00	6.3	1.65je	1.58	4	9.7	11
O	Newport Electric ....	26	1.80	6.9	3.03ju	2.62	16	8.6	13
O	Sierra Pac. Power ....	24	1.60	6.7	2.25je	1.95	15	10.7	11
O	Southern Colo. Pr. ....	9	.70	7.8	.87my	.90	D3	10.2	17
O	Southwestern El. Sr. ....	11	.80	7.3	1.38my	1.36	1	8.0	14
O	Upper Peninsula Power ...	12	1.20	10.0	1.54je	1.16	33	7.8	19
Averages .....				7.2%					9.6
Averages, five groups ...				6.7%					10.4
Canadian Companies**									
C	Brazilian Trac. L. & P. ...	23	\$2.00	8.7%	\$3.85d	\$3.69	4%	6.0	—
C	Gatineau Power ....	17	1.20	7.1	1.43d	1.26	13	11.9	—
C	Quebec Power ....	19	1.00	5.3	1.14d	1.21	D6	16.7	—
C	Shawinigan Power ....	26	1.20	4.6	1.43d	1.58	D9	18.2	—
C	Winnipeg Electric ....	36	1.50	4.2	2.53d	1.81	40	14.2	—

d—December. j—January. m—March. a—April. My—May. je—June. ju—July. B—Boston Exchange. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. E—Estimated. WD—When delivered. \*All twelve months' earnings comparisons have been adjusted to reflect in both periods the present number of shares outstanding. †If additional common shares are offered all earnings are adjusted to give effect to the offering. # On average shares. \*\*While these stocks are listed on the Curb, Canadian prices are used. (Curb prices are affected by exchange rates, etc.) †Does not fully reflect \$4,000,000 gas rate increase effective November 28, 1949, or electric rate increase of \$8,800,000 granted in 1950. Earnings on average shares outstanding, \$2.73; price-earnings ratio on this basis 11.7.





# What Others Think

## Nondefense Spending



WHILE a war-conscious Congress appears ready to give the military a blank check, "economy" still remains the watchword of a few earnest legislative leaders in matters of nondefense spending. They apparently feel that any savings realized in these expenditures will make the war burden just that much easier. William Knighton, Jr., of the Washington bureau of the *Baltimore Sun*, has recently made an interesting analysis of this situation in a series of articles on some of the many projects which might well be curtailed.

In an article on the Columbia basin project of the Bureau of Reclamation of the Interior Department, Knighton points out that continued construction this year on the project will compete with the rearmament program in money, man power, and critical materials. He goes on to say:

This giant plan, ultimately to cost more than \$773,000,000 is just one of the projects in the huge over-all development program of the Columbia river in Washington, Oregon, Montana, and Idaho.

The bureau will have approximately \$50,000,000 this year to spend on this joint project for power development and irrigation in the basin area. The bureau asked slightly more than that, the estimates having been made up before the start of the conflict in Korea.

Mr. Knighton reports that the economy plans for this project contemplate the necessity for the completion of the power phases of the program, because of power needs in the area. But this would entail a rather drastic curtailment of the irrigation features of the Columbia basin. It is estimated that a 40 per cent cut in

the irrigation program will save approximately \$12,000,000 this year.

ACCORDING to Knighton, one power project which may feel the economy ax is the Garrison dam and reservoir in North Dakota. Economy-minded members of Congress foresee the continuation of construction on this huge project as seriously competing with the expanding mobilization program and the war effort.

They therefore favor a cutback in construction work on this project to save more than \$12,000,000 in cash, man power, and materials which are critically needed for defense.

This dam and reservoir, listed as a flood-control project—although it is one of the multipurpose developments which include irrigation, power, etc.—will cost, when completed, \$202,000,000. When first proposed the figure was \$150,000,000.

The project is one of the larger single units of the over-all plan for the development of the Missouri river basin, on which hundreds of millions already have been spent. Of this particular project, a Hoover Commission task force had this to say:

One of the unanswered questions concerning development plans is whether there will be sufficient dependable water for purposes of navigation, flood storage, irrigation, water supply, and power development.

It is nothing short of a calamity that there should be grave uncertainties on this score at this late date.

Although \$80,000,000 has been allotted previously to this specific project, not all of the land has yet been purchased



## WHAT OTHERS THINK

by the government. Construction of the fill has been under way, but it has not nearly reached the point where a closure is possible. Several more years and another \$100,000 will be required for the project, even if present schedules are adhered to.

Even before the Korean outbreak, the House Appropriations Committee trimmed an annual Budget Bureau request for the project from \$35,000,000 to \$27,000,000. The Senate, in traditional fashion, restored part of the cut by granting \$33,000,000 to the project. In view of the need for the steel and cement in the war effort, the economy-minded legislators are now urging that 25 per cent of the original House figure be cut, which would mean a savings of \$12,750,000 under the Senate figure.

**I**N another article on the \$234,000,000 Oahe dam project in South Dakota, Knighton states that for two years the Federal government has been spending money on this costly project, although Congress was told that it had not been completely designed. The engineering plans and specifications had not been finished.

Approximately \$6,000,000 has been spent on this project to date, with virtually no construction under way. Contracts for beginning the building of the small city required to house the workers have been let, along with some excavation work.

Some Congressmen point to this project as one that will compete for money, man power, and critical materials with the ever-expanding mobilization program. Since it represents virtually a "new start," they maintain that it is one that the Engineering Corps of the Army could very well call off this year.

The Engineers asked for \$6,000,000 which will do little more than get the preliminaries under way. The House halved this request and the Senate again restored part of the cut by allowing \$5,000,000 for the project. Critics of the appropriation point out that while the 1951 spending program for this project

is comparatively small, if persisted in it will involve vastly increased expenditures in the years ahead.

The project is chiefly a flood control one, although it will produce some electric power. It is the second largest unit in the vast Missouri river basin plan.

**K**NIGHTON points to other nonpower projects as ones where cutbacks might be made. A unique plan is that of a sea channel 60 miles up the Sacramento river which would make the California capital an ocean port. If this project is carried out at this time \$18,285,000 of taxpayers' money will be required, as well as 5,500,000 man-hours of work and tons of critical material.

Four years ago, when the estimated costs were two-thirds of what they are today, the Bureau of the Budget questioned the advisability of and justification for starting the project at that time. Since then, however, it has recommended some money for development. Before the present appropriations, only \$2,010,000 had been allotted to it to date, chiefly for preliminary and related work. This year the House cut a \$2,500,000 request back to \$1,500,000 and the Senate upped the figure to \$2,250,000. Now some members of Congress have classified this project as one which should be discontinued during the war effort.

The Sacramento river now has a channel only 10 feet deep from San Francisco bay to the state capital. Plans for the development call for a channel 30 feet deep to permit ocean-going vessels to come right up to the city instead of unloading cargoes in the San Francisco bay area.

It would require considerable dredging of the lower reaches of the river, but the primary portion of the channel would constitute a land-cut canal of approximately 25 miles from the deepened river itself to a harbor to be constructed in Lake Washington one mile west of Sacramento.

The channel-canal which would save 15 miles would be the most expensive portion of the project. It would be 30 feet deep and from 200 to 300 feet wide. The appropriations for this year would

# PUBLIC UTILITIES FORTNIGHTLY



Courtesy, The (Baltimore) Sun

"DEARIE, DO YOU REMEMBER WHEN . . ."

only permit some down-river dredging and the construction of some work related to the development near the proposed harbor.

The harbor to be built at Lake Washington will consist of a turn-around area, 1,000 feet square. It will also be dredged to a depth of 30 feet. The fact that no work has been done on the main portion of the development is one of the reasons why the economy-minded claim the funds allotted for the current fiscal year should be deleted.

**I**n a subsequent article, Knighton cited the case of a pleasure boat harbor on Long Island as being one of the "expensible" Army Engineers' projects under a wartime economy. It seems that for some time the people of Nassau county, New York, have been trying to convince the Federal government that half of the \$2,400,000 cost of improving Jones' inlet, on the south shore of Long

Island, should be borne by the Federal Treasury.

The improvement, that of building a jetty on the east side of the inlet and dredging and maintaining a 12-foot channel in the inlet, would be of great benefit to the lovers of water sports, including sport fishing. Commercial fishermen also use the inlet from the ocean.

In 1941 the project was rejected by the district Army Engineer on the grounds that the "value of this project to commercial navigation is negligible." But his Washington bosses in the Engineers Corps overruled him.

It was this year that the Army Engineers came under fire of the House Appropriations Committee for requesting funds "for the initiation and simultaneous construction of too many projects," resulting in the waste of taxpayers' money.

The Bureau of the Budget several times has refused to agree to the Engineers' request for funds for the develop-

## WHAT OTHERS THINK

ment. It refused again this year. Although the project was authorized in 1946, the House Appropriations Committee refused to grant any funds for it this year, despite numerous pleas by New York Senators and Congressmen. When the matter came before the Senate committee, however, these pleas were heeded

and the more liberal Senate committee allowed \$500,000 to start the project.

The amount of money involved is comparatively small, but this is one of the types of projects which many members of Congress think should be eliminated during the emergency.

—D. T. B.

## Wise Regulation

THE Stanford University Business Conference held recently provided a ready forum for California business and utility men. M. R. Sullivan, president, Pacific Telephone & Telegraph Company, informed the gathering of California economic progress and outlined some of the almost fantastic improvements that can be expected in the field of communications during the coming years.

The utility president devoted a good portion of his remarks to the importance of wise regulation of utilities in any well-balanced economy. He noted that the objective of regulation has been to provide a reasonable substitute for competition. He added that long ago it was discovered that the creators and proprietors of roads, bridges, canals, stage lines, etc., brought great benefit to the community. But because of the "public interest" character of their business they were charged with certain obligations to the public and made subject to certain rules designed to guard against certain abuses.

He then emphasized the magnitude of the regulatory field and stated:

Regulation as a whole calls for a high degree of statesmanship on the part of those charged with the ultimate responsibility — the commissioners themselves. The task is a big one. It is a form of big business. Over 1,300 utilities having annual gross revenues of more than three and a half-billion dollars are being regulated continuously by the California commission. An indication of the large volume of work done by the commission is evident by the fact that during the 1949 fiscal year it issued formal decisions

and orders disposing of a total of 1,637 proceedings.

THE telephone man then went on to outline the difficulties inherent in the establishment of a fair and equitable rate of return. He discussed this phase of regulatory work as probably the most far-reaching and important question to be resolved by the commissioners. He observed that largely because of the historical conception of regulation as a substitute for competition the first test of a reasonable return, under leading court decisions, has required comparison with the earnings of others operating under comparable circumstances.

He then pointed out a second and more recent test which the courts have invoked; namely, that of maintaining the credit of a utility. He added that this test speaks essentially in terms of cost of money—the cost of attracting the individual investors to the enterprise. The telephone official then urged the need in commission work of broad-gauged, experienced citizen for long-range planning. Of this he said:

Wise regulation has no place for "cut-rate" abilities. The work is too important. The consequences on the utilities and the general economic welfare of the state are too great. But wise regulation is not expensive regulation. In fact, it is far less expensive than unwise regulation. Wise regulation is broad-gauge regulation; unwise regulation is detailed and petty regulation.

Wise regulation does not interfere with management but leaves management free to work for the best and most

## PUBLIC UTILITIES FORTNIGHTLY

economical service in the interest of the public; unwise regulation unduly encroaches upon management by imposing restrictive practices and requiring unnecessary and expensive reports all to the detriment of sound day-to-day operations.

Wise regulation provides an incentive for more economical operation by allowing the utility to retain, in small measure at least, part of the benefits of improved and more economical operation; unwise regulation nullifies incentive by taking away from the utility all the benefits of improved and more economical operation. Wise regulation implements the free enterprise system; unwise regulation tends towards administration through bureaucracy in a manner contrary to the American system.

**S**ULLIVAN went on to stress the importance of adequate compensation for commissions in order to attract and retain properly qualified personnel. He added that wise regulation benefits everyone, the utilities, the employees, the rate-

payers, and consuming public generally.

In the case of California, he noted that since 1913, shortly after the reorganization of the commission to its present form, the salary of the commissioner has been increased 50 per cent. He compared this with salary and wages generally which have increased much more during this 40-year period. As an example, he noted the case of a telephone craftsman who in 1913 earned about \$1,250 per year; today it is possible that a similarly trained telephone employee may earn \$5,000 or more per year—a gain of 250 to 300 per cent. He added that over the years the state of California has been fortunate in obtaining the services of very able men, but these men, generally speaking, have served at considerable personal monetary loss.

The speaker questioned whether we have been expecting too much for too long to assume that we can always attract talent so necessary to wise regulation, and which is so important to the welfare of the state. The speaker concluded by urging that regulation of that character found in California will prevail.

## Liquid Metals Handbook Available

**A** 194-PAGE *Liquid Metals Handbook*, which has been published under the joint sponsorship of the Atomic Energy Commission, the Office of Naval Research, and the Navy Bureau of Ships is now ready for distribution.

Since liquid metals may be used as coolants in nuclear chain reactors producing power, the fundamental information given in the handbook is of particular interest to reactor designers. However, publication of the handbook is expected to encourage the use of liquid metals in other industrial applications, and thereby increase the number of technical personnel trained to work in this relatively new field of technology.

Much of the information compiled was obtained during the last few years from research sponsored by the AEC and the two Navy Department agencies, although private industrial laboratories have also

contributed to the handbook. Metals having low melting points so that they become liquid at room temperature or within a few hundred degrees of room temperature are treated in detail. Metals discussed include aluminum, antimony, bismuth, cadmium, cesium, gallium, indium, lead, lithium, magnesium, mercury, potassium, rubidium, sodium, thallium, tin, zinc, and several alloys.

Subject matter of the *Liquid Metals Handbook* includes: Physical Properties of Some Liquid Metals; Chemical Properties and Laboratory Techniques; Resistance of Materials to Attack by Liquid Metals; Availability of Liquid Metals; Heat Transfer; Large Scale Handling; and Industrial Utilization.

The *Liquid Metals Handbook* may be obtained from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. Price \$1.25.

# The March of Events



## In General

### Natural and LP Gases Strengthen Military Position

CLOSELY following the statement of Frank M. Porter, president of the American Petroleum Industry, that the petroleum industry is prepared to meet "any and all foreseeable military emergencies" (see page 186 of August 3rd issue), the Oil Industry Information Committee has come forward with a more complete analysis of the industry's position with respect to natural gas, LP gases, and petrochemistry.

Supplies of natural gas are "bountiful," the committee declares, pointing out that in 1940 the marketed production was 2.7 trillion cubic feet with reserves of 85 trillions. Last year production had moved up to 6.2 trillion cubic feet with known reserves of 180 trillions, the committee reports.

From this enormous supply, the tire industry, vital to any military effort, can draw its needs for the manufacture of carbon black, vital ingredient of tires made either from synthetic or natural rubber. Also, the committee points out, production of synthetic ammonia from natural gas now is at an annual rate of 620,000 tons, much of which enters the manufacture of nitrogen for explosives and nitrogen fertilizers derived from petroleum.

Liquefied petroleum gases fortify the relatively new petrochemical industry for emergency increases in demand, the report says. Marketed production of LP gases, which have a wide range of industrial and petrochemical uses, jumped from 313,456,000 gallons in 1940 to an estimated 2,837,000,000 gallons in 1949,

a ninefold increase. Experts, the report continues, estimate that the potential recovery rate of these gases probably is five to ten times greater than present consumption, according to the committee's report.

LP gases are processed into the components of most synthetic rubbers, and enter into the production of a wide range of higher alcohols for antifreezes, soap substitutes, and many other products.

### FPC Halts Utility Map Sales

As the shadows of the Korean "police action" assumed the proportions of large-scale war, the Federal Power Commission stopped distributing maps and documents revealing locations of gas, electric, and other power facilities.

The move, according to acting FPC Chairman Thomas C. Buchanan, is designed to prevent any information from falling into "unauthorized hands."

Information from the commission is now available only to authorized representatives of power companies presenting credentials to the commission's Washington document room. Heretofore, maps and other data have been available by mail to anyone paying the proper fee.

The move, made a few weeks ago but not announced, is intended to block information about new natural gas pipelines and electric power plant additions, Buchanan said.

The FPC is without authority to stop power companies from announcing expansion plans, but it hopes the companies will realize it's their plants the commission seeks to protect.



## Alabama

Courts "Forced" Rate  
Increases

**T**HE courts of Alabama have forced increased telephone and freight rates on the Alabama Public Service Commission, according to Attorney General A. A. Carmichael, who said the PSC was following the decision of the state supreme court in granting rate hikes to the Southern Bell Telephone & Telegraph Company and to the railroads.

Railroads in the state recently were allowed a 23 per cent freight increase by the Interstate Commerce Commission, and the Southern Bell Telephone Company received a rate hike of \$3,307,509 through the PSC. [See page 369, this issue.]

"In raising telephone rates in Alabama," the attorney general said in a prepared statement, "the Alabama Public Service Commission is following a decision of the supreme court of Alabama . . . in which the office of the attorney general, representing the Alabama Public Service Commission, appealed from a decision of the Montgomery Circuit Court.

"In other words," Carmichael continued, "the increase was forced on the public service commission by the courts."

He concluded with the observation that there was nothing further that his office could do in the matter of either the freight rates or the telephone rates.

## Arkansas

Telephone Rate Hearings  
Begin

**P**UBLIC service commission hearings were scheduled to open September 5th on a petition of the Southwestern Bell Telephone Company for its projected new Arkansas rate schedule. The hearings, to be recessed within a day or two, would be resumed October 3rd, when the company must present witnesses for cross-examination by opponents of the new rate schedule.

Higher monthly rates, ranging from 50 cents to \$4.50 for each installation, will become effective the twenty-first of this month, the date set in the company's petition. Existing law makes new rate schedules effective on the date sought by the petitioning company, but the statute requires the company to post a surety bond sufficient to guarantee later reimbursements should the commission finally rule out the new schedule. The company posted a \$1,250,000 surety bond to meet this requirement.

## Colorado

CPS-Government Contract  
Approved

**S**ECRETARY of the Interior Oscar L. Chapman has approved a contract for delivery of government-produced hydroelectric power over transmission lines of the Public Service Company of Colorado.

The power will come from the government's Colorado-Big Thompson project and will avert the necessity for government-built transmission lines to serve

REA coöperatives and other preference customers near the company's lines.

Describing the contract as a "major step in coöperation" between the government and privately owned utilities, Chapman said the coöperatives now being served by the company, and municipalities and other public bodies adjacent to the company's lines, will be able to get Colorado-Big Thompson power at a minimum cost to the consumer and to the government.



## THE MARCH OF EVENTS

### Idaho

#### Albeni Project Arouses Bonner County Commissioners

BONNER county commissioners recently announced opposition to construction of the Albeni Falls multiple-purpose dam on the Pend Orielle river until they can be assured the county will be reimbursed for loss of revenue in areas to be flooded.

The commissioners have called on the Idaho delegation in Congress to block efforts to expedite construction of the dam until a Federal law is passed that will assure reimbursement.

The commissioners noted in their request to the Congressmen that, in the case of Boulder dam, Congress enacted the Boulder Canyon Project Act, which has reimbursed Nevada and Arizona for such losses as the commissioners expect in Bonner county. They also called attention to the fact that much of the benefit of Albeni Falls project will be "out of state."

#### New Hydro Plant to Be Built

THE Idaho Power Company has announced it will construct a new 90,000-kilowatt hydroelectric plant on the Snake river, near Mountain Home. The project, company officials said, will be known as the C. J. Strike hydroelectric development in tribute to the company's former president and general manager, who died February 11, 1948. The new dam and plant will be the company's sixth and largest development since 1946. Cost of construction is estimated at \$18,500,000 and completion is scheduled for 1952.

The earthen dam will be 120 feet high from foundation, creating a reservoir reaching 32 miles upstream, with an estimated water level fluctuation of about two feet. Concrete spillways will serve three 30,000-kilowatt generators which will feed power into the company's transmission grid through two 138-kilovolt lines.

### Illinois

#### Centennial Gas Exhibit

CHICAGO's centennial celebration of gas service was marked on September 5th by the opening of an exhibit in the Museum of Science and Industry portraying progress of the gas industry and what it has done for Chicago. Peoples Gas Light & Coke Company is building the \$100,000 exhibit as a permanent educational feature.

Five past presidents of the American

Gas Association were named by AGA President Hugh H. Cuthrell to assist at the presentation.

Gas service, going today to 7,300 industrial and 35,400 commercial customers in Chicago, in addition to its hundreds of thousands of residential users, is just thirteen years younger than the city itself. It was turned on September 4, 1850, to light 99 street lamps, 36 outlets in the city hall, and lighting fixtures in 125 private establishments.

### Louisiana

#### New Orleans Utilities Make Antisabotage Plans

NEW ORLEANS Utilities Commissioner A. Brown Moore, after a recent

conference with various utility organizations in the city, disclosed steps that are being taken to protect essential utility properties from sabotage. Precautions

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taken, or to be taken, Mr. Moore said, included:

The Industrial canal steam-electric generating station of New Orleans Public Service, Inc., has been completely fenced in with a high steel wire fence immediately surrounding the plant proper. Other fences are being erected on the boundaries of the property. All gates are locked and armed guards are stationed at all entrances twenty-four hours a day.

Crucial points within the enclosures are floodlighted and armed guards are on duty day and night. Surrounding areas between fences have been cleared of trees and shrubs to leave the ground bare and visible from any portion of the plant. Identification passes have been issued to all employees authorized to enter the plant enclosure.

The Market street power plant is fully protected in the same manner. Critical points in the electric distribution system, including substations, are protected day

and night by armed guards. Other less important points are protected by employees during the day and by high fences and floodlights at night.

The gas distribution plant is protected by employees during working hours of the day and by armed guards at night. Steps also have been initiated to give adequate protection to facilities of the United Gas Pipe Line Company at the various city gates.

Southern Bell Telephone & Telegraph Company requires identification passes visible on all employees at all times while in the company's vital areas. Equipment rooms are kept locked at all times and can only be opened from within by employees after receiving the proper signal. Automatic (dial) exchanges and stations are locked at all times with employees on duty day and night. Certain manholes in the streets covering vital lines are locked and can only be opened by trusted maintenance employees having the proper keys.

## Massachusetts

### Governor's Regulatory Proposals Rejected

**D**URING the closing days of its 1950 session, the state legislature rejected proposals of Governor Paul A. Dever (Democrat) for the enactment of measures which would provide for investigation and broader regulation of public utilities, and the establishment of a consumers' counsel in the state Division on the Necessaries of Life to provide what he termed "greater protection" for the public in utility rate cases.

Both house and senate turned down the governor's request for a \$150,000 probe of electric light and power rates in the Bay state by a special commission, and killed by the senate was a substitute measure calling for a similar investigation by the state department of public utilities.

The senate also rejected a house-passed administration bill to give the state department of public utilities final

say on the facts in appeal cases and to bar the introduction of new evidence in rate cases appealed to the courts from the findings of the DPU. It marked the second senate rejection of such a bill, this latest action coming after the issue had been revived in a special message from the governor.

Also similarly defeated by the senate for the second time after it had passed the house was the administration bill for establishment of a new and stronger Division on the Necessaries of Life, with a consumers' counsel to represent the public at hearings and oppose utility rate increases.

Under provisions of this bill, similar to a measure which also was rejected last year, the new commission would have consisted of three members and a director, all to be appointed by the governor.

The proposed consumers' counsel would also have been appointed by the governor and would have a staff of "necessary assistants." This counsel would

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have been authorized to represent the public at hearings anywhere in the United States in opposition to utility rate increases, or boosts in the price of food or other essential commodities. It

was condemned by opponents as a "snoop bill," a "job grab" and a "masterpiece of confusion," while advocates conceded it would have resulted in an additional annual expenditure of \$150,000.

### New Jersey

#### Security Measures Initiated

**S**PECIAL security measures for the protection of its gas and electric installations have been set up by the Jersey Central Power & Light Company, according to E. H. Werner, president.

"All contingencies of war, in so far as they are perceivable, have been taken into account in the over-all plan to be supervised by a special emergency director."

In outlining the company's security program, the utility executive said JCP&L has 30 per cent more generating capacity than at the end of World War II. This increase, he continued, will be boosted in the near future by the installation of a new generator at the South Amboy plant, which will make a total capacity increase of 94 per cent since VJ-Day.

### South Carolina

#### Governor Denies He Will Be Santee-Cooper Manager

**G**OVERNOR J. Strom Thurmond has denied current rumors that he will become general manager of the Santee-Cooper project after his term as governor ends next January.

In reply to queries concerning his possible appointment to the top public power post, the governor said, "No one has approached me about the position and

I have approached no one. It is pure idle talk. If the job were offered me, I would refuse it."

It had been reported that the governor might be elected general manager of the state-operated, publicly owned hydroelectric development in the lower part of the Palmetto state. The post of general manager is now held by Senator R. M. Jefferies of Colleton.

The governor's statement has been accepted as final disposal of the rumor.

### Wisconsin

#### Organize to Oppose Change In Utility Tax Law

**M**ORE than two score communities of the state have organized to oppose any changes in the distribution of Wisconsin utility taxes.

Under the present law, the state collects a tax on such utilities as electric generating and distribution plants. It returns 65 per cent of the tax to the town, city, or village where the property is located, and 20 per cent to the home county. The state retains 15 per cent.

This formula gives small communities with a large utility plant within its borders a large slice of revenue, reducing their local tax needs.

In the past, legislative proposals to distribute the utility tax money on the basis of where the current is sold, rather than one plant location, have been defeated.

The electric utility tax distribution to communities throughout the state amounts to about \$2,000,000 a year, and a change in the present law might cost them as much as \$300,000 a year.



# Progress of Regulation

## Fair Value for Rate Making Not to Rest Solely Upon Books of Account

**T**HE rate base of a public utility, says the supreme court of New Jersey, is the fair value of its property used and useful in the public service. This value is determined by considering original cost, prudent investment, reproduction cost, cost of reproducing the service as distinct from the property, and other factors. But, says the court:

The board is not free, however, to arrive at a fair value based solely upon a utility's books of account, as the Public Service companies admit was done in the proceeding here under review.

A uniform system of accounts is prescribed, but commissioners do not commit themselves to the approval or acceptance of any item set out in any account for the purpose of fixing rates or in determining other matters. Neither the court nor the board, it was said, can accept the books of account at face value in a rate case, in which reasonableness is always the primary issue.

These proceedings had originally been started to obtain an increase from a 5-cent fare to a 7-cent fare in order to cover increased wages; but later, after temporary operation under a 7-cent fare, the company had called one witness, introduced five exhibits, and then rested the case. This, said the court, was not the complicated, expensive, and time-consuming procedure of proving a rate base, which the company had sought to avoid at the time of filing the application for an increase based on the increased wage costs.

A single one-page exhibit was virtually the only evidence offered to support a rate base of about \$61,000,000. The board had disallowed and adjusted certain items, the most significant of which was an item for intangibles attaching to busses the operating authority for which stemmed from streetcar franchises. Included was an item of about \$17,000,000 representing the cost of intangible property related to the organization and acquisition of various autobus properties included in the statewide system. These intangibles had been rejected by the Securities and Exchange Commission in its exercise of jurisdiction over the corporate financial structure. The New Jersey board, however, had considered these acquisitions necessary in the integration of the autobus transportation system.

There must be proof in the record not only as to the amount of various accounts, but also sufficient evidence from which the reasonableness of the accounts can be determined, said the court. No proof had been offered to support the items included other than the company's books.

The burden was said to be upon the company to establish by competent evidence that items included in the rate base are properly included. It was said to be the recognized rule in the state that an allowance may be made for going concern value if there is sufficient evidence to determine its amount. Going concern value, however, is not to be confused with that intangible value which may attach to a franchise from the state and which may not be included in the compu-

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tation of a utility company's rate base.

Moreover, said the court, a utility must not only bear the burden of proving the amount of expenses, but also the burden of proving the basis of charges to expense accounts and the propriety of including such charges for rate-making purposes.

The bus routes under consideration are divided into zones on the basis of the 5-cent fare. For this reason alone, said the court, any comparison with rates

elsewhere must be made on the basis of the length of ride obtainable for a given fare and not merely by comparison of the fares themselves.

The court ruled that the attorney general could properly maintain the appeal on behalf of the people of the state notwithstanding his relationship to the board. The court also made rulings on other procedural matters. *Re Public Service Coördinated Transport et al.* (No. A141).



### Natural Gas Pipe-line Authorization Conditioned upon Improved Financing Plan

THE Federal Power Commission, in authorizing a natural gas pipe-line company to enlarge the delivery capacity of its pipe-line system for the transportation and sale of natural gas, required the company to submit an improved plan for financing the construction. The plan should be such that over-all capitalization would consist of debt securities of not more than 75 per cent and common equity of not less than 15 per cent.

The company's proposed capital structure would be 79.23 per cent long-term debt, 10.10 preferred stock, and common equity 10.67 per cent. The commission held that debt would be too high and common equity too low. Subsequently the commission did approve an amended plan of financing. Under this plan the company's capital structure will consist of 74.69 per cent debt securities, 9.57 per cent preferred stock, and 15.74 per cent of common equity.

The pipe-line company had entered into an agreement to purchase gas leasehold interests from an affiliate at a price which might exceed the cost to the affiliated seller. The commission has consistently held that the book value of assets shall not be increased as a result of affiliated company transactions. Accordingly, it said that the certificate would be conditioned to require the company to charge to its earned surplus account any amount in excess of the cost to the affiliated seller for the leaseholds.

The commission also considered an intervening company's request that the certificate contain a condition requiring the company to file common carrier rate schedules for the transportation of natural gas and to allocate a portion of its capacity to common carrier service. It observed that the intervener failed to show that it was authorized to do business. There was no evidence that the intervening company owned or had existing contracts either for the purchase of gas lands or leases, or contracts for the purchase of gas from producers owning existing producing wells. The commission pointed out that specific obligations under the Leasing Act to transport or purchase natural gas may be imposed on the pipe-line company in a proceeding before the Secretary of the Interior. It also said that after any company has filed rates pursuant to an order of the Secretary of the Interior the commission must consider their reasonableness.

However, the commission said that waiving all consideration of its power to enforce such obligations as the company may have as a common carrier, and bearing in mind that the system is the only one that can initially receive any gas for common carriage and is operating at a load factor of better than 90 per cent, it could not be said that public convenience and necessity would be subserved by allocating any portion of its system pipelines for common carrier transportation.



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This action would frustrate its existing contracts to the advantage of the intervening company, which had not shown that the public interest required the service it proposed.

Commissioner Draper dissented from that portion of the order requiring the company to submit a satisfactory plan for financing. He was of the opinion that

the commission did not have authority under the Natural Gas Act to require the company to reshape its entire capital structure of twenty-two years' standing before it could proceed with the proposed construction. *Re San Juan Pipe Line Co. et al.* (Docket No. G-1067, G-655, G-1051, G-1019, G-1177, G-1195, Opinion No. 197).



### Escalator Clause Excluded from Gas Tariff

THE California commission, in authorizing a gas company to increase rates, rejected the company's proposal to include a fuel oil escalator clause in its firm gas tariff. Customers selecting firm service must expect to pay the full cost of that service, together with such margin as is necessary to protect the utility against ordinary fluctuations in costs resulting from changing operating conditions.

The commission prescribed a firm industrial service schedule of the block type containing neither a low summer rate nor the fuel oil escalator clause. A low summer rate having as its greatest justification an off-peak promotional load stimulant was considered undesirable. Load factor improvement should be sought through the interruptible type of schedule, according to the commission.

A heating value clause was allowed in the company's schedule, however, because a possibility existed that gas purchased in the future for one of its service areas might be of different heating quality from that obtained for another area. In the absence of an automatic rate

adjustment provision in the company's tariff, discrimination might result because of equal charges being made for gas of unequal heating value.

The company was faced with a substantial construction program. To meet demands for service it would be required to issue bonds and common and preferred stock. The commission observed that if the company were to proceed with its plant expansion program, earnings would have to be maintained at a level sufficient not only to service presently outstanding securities, but also to permit the issue and sale upon favorable terms and under prevailing conditions of such additional securities as might be necessary. In deciding this matter the commission gave due regard for the maintenance of a balanced capital structure and to the effect on consumers.

Lands were included in the company's rate base at cost in view of the commission's practice of using a historical cost rate base with lands included at cost rather than at present market value. *Re San Diego Gas & E. Co.* (Decision No. 44037, Application No. 30338).



### Method of Distribution of Unclaimed Assets upon Dissolution of Holding Company Prescribed

THE Securities and Exchange Commission held that a holding company dissolution plan would be fair if amended to provide for the distribution of unclaimed assets to the company's present security holders. The company's proposal to deliver the unclaimed assets to former

subsidiaries was considered unfair, since these subsidiaries had been distributed by the holding company from time to time over a period of years, and there was no indication of any continuing interest in the companies by the holding company.



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A distribution of the unclaimed assets to the stockholders of the holding company who could be located would involve sending to many checks amounting to less than the cost of mailing. On the other hand, some stockholders would be entitled to substantial amounts. The commission concluded that fairness requires that those assets be distributed to the persons shown on an authentic list of persons entitled to receive the final distribution in accordance with the terms of the dissolution plan.

Since it would not be economical to attempt to effect a distribution on that basis without some limitation, the commission provided that no distribution would have to be made to persons entitled

to receive less than \$5. The aggregate amount allocable to those persons would be distributable pro rata to all other persons shown on that list.

In order to make this distribution feasible, the commission provided that the unclaimed assets should be converted into cash upon expiration of a 5-year period. It recognized that the \$5 minimum distribution was somewhat arbitrary, but, after the expiration of the 5-year period, it was not disposed to require the expenditure of the estate's funds for purely administrative expenses which would be required in order to distribute relatively small amounts to a large number of persons. *Re Middle West Corp. (File No. 54-185, Release No. 9867).*



### Working Capital Allowance Added to Rate Base Claim

THE Georgia commission prescribed increased telephone rates to enable the company to provide improved and adequate service despite protests of subscribers and city officials. These protests were largely based on the poor quality of service, inability to obtain service, poor long-distance service, and the belief that existing rates were adequate for the type of service rendered.

Plant value, as testified to by a company witness, was accepted by the commission since it was found that the accounting procedures used were proper and that the books reflected the company's actual investment in conformity with established standards.

The commission, in fixing the rate base, included for working capital an amount equivalent to thirty days' operating expenses, excluding depreciation. The company had included no amount

for this item. An annual charge of 4 per cent for depreciation was considered adequate.

Commissioner Walter R. McDonald dissented. He pointed out that the company's rates had been increased a year ago. At that time the order analyzed the results of the increased rates authorized and established that they would provide an adequate return on the company's investment. Commissioner McDonald believed that the record failed to disclose any change in the property account or operating conditions which would support the greatly increased rates now being authorized. Furthermore, he noted that the new rates were higher than rates allowed by the commission for exchanges of comparable size and having comparable operating conditions. *Re Standard Teleph. Co. (File No. 19322, Docket No. 12-U).*



### Municipal Water Plant Assumes Utility Obligations On Out-of-city Service

THE motion of a municipal water utility to dismiss the complaint of several residents of territory outside city limits that the utility was improperly re-

fusing to extend service to them was denied by the Pennsylvania commission.

The utility contended that as a municipal plant it was exempt from commission

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jurisdiction. The commission overruled this claim when it appeared that the utility already was serving a number of out-of-city residents. By state law public utility service rendered by a municipal corporation outside city limits is subject to regulation and control just as if the service were rendered by a public utility company.

The city tried to explain its extra-territorial service as one in which it was merely acting as an agent for the town which provided all the water supply

facilities for use of city water in various suburban areas. No contract or agreement evidencing such an arrangement between city and town authorities was produced. Consequently, the municipality was in the position of serving some out-of-city residents while refusing to provide water for others. Such a situation cannot be permitted, the commission said, in denying the motion to dismiss the residents' complaint. *Meister et al. v. Erie City Water Bureau (Complaint Docket No. 14925)*.

### Higher Rate, Lower Weight Approved for Liquefied Gas Shipments

THE Montana Board of Railroad Commissioners directed a railroad to cease the practice of basing its rates for shipments of liquefied petroleum gas on the estimated rate per gallon for gasoline. A shipper had claimed that the rates for its shipments were unreasonable and excessive, in that while the liquefied gas weighed only 4.7 pounds per gallon, it was being billed at 6.6 per gallon.

The board agreed with the shipper but at the same time increased the rates for

liquefied gas to 140 per cent of the gasoline rate presently in effect so that the carrier would receive the same revenue for equal service. The board pointed out that if it allowed the shipper's protest without any rate increase, the carrier would receive substantially lower revenues for handling liquefied gas than for rendering equal service for gasoline. *Montana Dakota Utilities Co. v. Great Northern R. Co. (Docket No. 3422) 3767, Order No. 2131*.

### Commission's Refusal to Increase Confiscatory Transit Rates Pending Study Is Reversed

THE Maryland Court of Appeals reversed orders of the state commission and the circuit court denying the Baltimore Transit Company's application to increase its base rate from 12½ to 15 cents. The court pointed out that undisputed evidence in the record indicated that the company was operating at a loss even though all suggested economies had been put into effect.

The commission apparently believed that the company should make a study of the possibility of increasing revenues by other means, such as by adopting zone fares. It conceded that the company's loss would continue during the period of study but argued that company earnings during World War II were at an abnormally high rate and that some of these accumu-

lated earnings should be employed to provide financial relief.

The court described this suggestion as "patently inappropriate." The law does not require the company to give up for the benefit of future subscribers any part of its accumulation from past operations. Profits of the past, the court continued, cannot be used to sustain confiscatory rates for the future.

The court further commented that even if under some circumstances the commission's denial of the immediate relief requested be justified, it was not proper here. After finding that existing rates were confiscatory, the commission was obliged either to pass the proposed rates, adopt an adequate substitute, or grant temporary relief pending final de-

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termination. Here the commission merely suggested further study without affording any relief.

The court concluded with the comment that the proposed rates would not yield

more than a fair return on the fair value of the company's property and that they were not out of line with rates charged in comparable cities. *Baltimore Transit Co. et al. v. Hessey et al.*



### Newly Passed Legislation Resolves Carrier-city Franchise Controversy

THE appellate division of the New York Supreme Court dismissed a controversy which had been submitted to it on an agreed statement of facts by the city of New York and a bus company when newly passed legislation made the controversy moot.

The bus company was planning on increasing its rate from 5 to 8 cents with the approval of the state commission. The city threatened to revoke the carrier's 25-year franchise if a clause in the franchise providing for a 5-cent fare were violated.

While the matter was pending before the court, the state legislature passed a law providing "that the public service commission shall have no jurisdiction with respect to rates of fares established pursuant to any contract or franchise heretofore or hereafter made between any omnibus corporation and a city having more than a million inhabitants." This law, the court ruled, made the controversy moot and required dismissal of the proceeding. *New York City Omnibus Corp. v. New York et al.* 97 NYS2d 590.



### Municipal Plant Required to Meter Water

THE Pennsylvania commission ordered a municipal water plant to install meters in dwelling houses at its sole cost and expense. In a previous hearing the commission held that a proposed tariff authorizing the town council to order any owner to install meters at his expense was contrary to well-established principles. Subsequently, on order of the commission, the utility filed a tariff establishing a schedule of block-type meter rates available to all classes of customers, deleting any reference to optional treatment in connection with the installation of meters and providing for a method of payment of bills by metered customers.

The utility denied that it violated the tariff and the order of the commission, alleging that the complainant's dwelling

was not within the corporate limits; that the decision as to whether or not meters should be installed was not taken away by the order of the commission; that the tariff's only mention of meters stated that metered rates are available to all.

The commission discussed neither the added expense to the utility nor the fact that a serious water supply problem necessitated an expansion of facilities. It then ruled that under the statute the commission has jurisdiction where a municipal water utility furnishes service to customers beyond its corporate limits and, according to provisions of the tariff, the company is offering metered service to consumers located outside its corporate limits. *Birchenall v. Morrisville* (Complaint Docket No. 14919).



### No Special Rate for Heat Pumps

THE Indiana commission dismissed a petition by customers for an investigation to establish electric rates for the

operation of heat pumps for domestic heating of homes. The commission held that there is no justification for special

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electric rates for heat pumps and that the load imposed on the distribution system is of such character that it should not encourage an increase in this type of domestic heat by making available a lower rate.

The commission further said that the development of equipment for this type of heat has not yet reached the stage of perfection where it is satisfactory for the ordinary residential users. *Re Cassell et al. (No. 22297).*



### Other Important Rulings

THE Wisconsin commission, upon determining that the failure of a telephone company to obtain commission authority to issue notes was due to excusable neglect or mistake and was not occasioned by any design to evade compliance with the statute, and that the issue was otherwise in accordance with the law, ordered that the notes be validated. *Re Wood County Teleph. Co. (2-SB-419).*

The Wisconsin commission excluded directory cost from a telephone company's expense account in a rate proceeding because of the company's failure to sell advertising space. The commission believed that the proceeds realized from the sale of space would have defrayed the printing and distribution costs, and that, consequently, such expense should not be charged to the ratepayers. *Re Wood County Teleph. Co. (2-U-3273).*

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*Public Utilities Reports (New Series)* are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of *PUBLIC UTILITIES FORTNIGHTLY*, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

FEDERAL POWER COMMISSION

Re Pennsylvania Electric Company

Docket No. E-6251, Opinion No. 194

June 1, 1950; rehearing denied July 20, 1950

**P**ROCEEDING brought by Federal Power Commission to determine whether a proposed acquisition by a public utility under its jurisdiction of the facilities of three local electric companies requires prior Commission approval; approval determined necessary and accounting revisions as to acquisition costs ordered.

*Consolidation, merger, and sale, § 13 — Acquisition of electric facilities — Commission approval.*

1. The acquisition by a public utility, subject to the Federal Power Act, of the facilities of smaller electric companies is a consolidation or merger for which Commission approval is required under § 203(a) of the Federal Power Act, 16 USCA § 824b(a), p. 99.

*Consolidation, merger, and sale, § 13 — Acquisition of facilities of local companies — Federal Power Commission approval.*

2. The acquisition by a public utility, subject to the regulations provided in the Federal Power Act, of the facilities of three small electric utility companies not within the jurisdiction of the Federal Power Commission requires prior Commission approval under § 203(a) of the Federal Power Act, 16 USCA § 824b(a), p. 99.

*Statutes, § 11 — Interpretation — Choice of words.*

3. A possible meaning of a part of a statute should not be rejected simply because it could have been expressed in other terms, particularly where the effect of such rejection would be to make the whole a nullity, p. 100.

*Consolidation, merger, and sale, § 13 — Acquisition of electric facilities — Commission approval — Legislative intent.*

4. The language of § 203(a) of the Federal Power Act, 16 USCA § 824b(a), should be construed as requiring that a public utility under the act obtain Commission approval prior to its acquisition of electric facilities of other companies whether or not such companies are also subject to the act, since only by such interpretation can the congressional purpose of such section, that is, the prevention of the burdening or inflation of the acquiring utility's accounts, be effectuated, p. 100.

*Accounting, § 32 — Excess purchase price — Amortization.*

5. An electric utility under the jurisdiction of the Federal Power Commission which pays for local distribution facilities a substantial sum over and above depreciated cost will not be permitted to classify the excess in Account 100.5, Electric Plant Acquisition Adjustments, and amortize it through charges to Account 505, Amortization of Electric Plant Acquisition Adjustments, in the operating expense section of the income statement, "above the line" of return on investment, but, on the contrary, will be required to



## FEDERAL POWER COMMISSION

amortize the excess over depreciated original cost to Account 537, Miscellaneous Amortization, below the line, p. 105.

### *Fines and penalties, § 8 — Failure to obtain authority — Uncertainty as to law.*

6. An electric utility under the jurisdiction of the Federal Power Commission which acquires the facilities of smaller electric companies without first obtaining Commission approval of such acquisition will not be required to pay the penalties required by the act where the Commission in past orders has manifested some uncertainty as to the proper construction of the section violated by the utility, since an authoritative settlement of the substantive question of interpretation of the section is of greater importance to the administration of the act than the exaction of penalties, p. 107.

### *Consolidation, merger, and sale, § 13 — Merger of facilities under Federal Power Act.*

Statement that § 203(a) of the Federal Power Act, 16 USCA § 203b(a), might be construed as applying to any merger or consolidation by a public utility of its facilities, subject to the jurisdiction of the Commission, with facilities for the transmission or sale at wholesale of electric energy in interstate or intrastate commerce, p. 104.

**APPEARANCES:** Knox Henderson, Francis Ballard, and Ballard, Spahr, Andrews & Ingersoll, for Pennsylvania Electric Company; Howard E. Wahrenbrock, Leonard Eesley, and Francis R. Bell, for the staff of the Federal Power Commission.

By the COMMISSION: We initiated this proceeding by a show cause order issued November 29, 1949, to determine whether the then proposed acquisition, by respondent Pennsylvania Electric Company (Penelec), a "public utility" subject generally to the regulation provided in the Federal Power Act, of the facilities of three small electric utility companies serving the boroughs of Cresson, Gallitzin, and Hastings, Pennsylvania, was subject to the requirement of prior Com-

mission approval under § 203(a) of that act, 16 USCA § 824b (a). None of the three companies owned or operated any facilities subject to the jurisdiction of this Commission and hence none was such a "public utility."

Our show cause order followed more than three months of correspondence and conferences with Penelec in regard to the proposed acquisition. During that period the requirements of § 203(a) for Commission authorization of the transactions therein referred to were called to its attention and a number of our orders from 1944 on were pointed out<sup>1</sup> in which we have found similar acquisitions of electric utility facilities to be subject to such requirements.

### *Notwithstanding the correspondence*

<sup>1</sup> Of approximately 28 similar orders, twelve were cited:

Re California Electric Power Co. (1944) 4 FPC 601; Re Southwestern Pub. Service Co. (1945) 4 FPC 1123; Re Northern Virginia Power Co. (1946) 5 FPC 458; Re Montana-Dakota Utilities Co. (1946) 5 FPC 514; Re Southwestern Pub. Service Co. (1946) 5 FPC 703; Re Northern States Power Co. (1946) 5

FPC 1017; Re Montana-Dakota Utilities Co. (1947) Doc. No. IT-6059, 6 FPC 760; Re Pennsylvania Power & Light Co. (1947) Doc. No. IT-6098, 6 FPC 1114; Re Union Electric Power Co. (1948) Doc. No. IT-6001; Re Attleboro Steam & Electric Co. (1948) Doc. No. E-6141; Re Eastern Massachusetts Electric Co. (1948) Doc. No. E-6177; Re Virginia Electric & Power Co. (1949) Doc. No. E-6211.



## RE PENNSYLVANIA ELECTRIC CO.

and conferences and issuance of our order on November 29, 1949, Penelec proceeded to consummate the acquisition on December 1, 1949, without having applied for and obtained Commission authorization. In its written response to the order, at the hearing which followed, and in the brief it subsequently filed, Penelec relied on alternative contentions as to the interpretation of § 203(a) to justify its non-compliance with that section: (1) That the clause relating to merger or consolidation of facilities does not apply to any acquisition of facilities; and (2) that even if it does apply to some acquisitions, it does not apply to acquisitions of purely local distribution facilities, such as are here involved.

The first contention seems to have occurred to respondent only recently for it has at earlier dates repeatedly applied for and obtained authorization under § 203 to acquire electric utility facilities.<sup>2</sup> The second contention raises the question whether in any event the section applies to an acquisition of nonjurisdictional facilities, upon which this Commission in three orders between 1940 and 1944 took

a different position than that originally, and during the last six years consistently taken by it.<sup>3</sup> As it happens, one of those three orders disclaiming jurisdiction dealt with this same company's acquisition of local distribution facilities of Logan Light Heat & Power Company in 1942 (Re Pennsylvania Electric Co. Docket No. IT-5760, 3 FPC 646, 652, finding (8)).

In view of the fact that this Commission's orders and findings involving the questions raised by respondent have been entered without opinions or with very brief discussions, it is appropriate for us now to state the reasons for the construction we think should be placed upon the section.

### *Applicability of Requirements of § 203 (a)*

[1,2] Our problem here is not whether the local distribution facilities acquired from these three companies are "subject to the jurisdiction of the Commission" within the meaning of § 201(e), 16 USCA § 824 (e),<sup>4</sup> so as to make anyone owning or operating them a "public utility," subject as such to the regulatory provisions of

<sup>2</sup> (1943) 3 FPC 544, 557, 646; (1946) 5 FPC 551.

<sup>3</sup> From 1935-1940 the Commission assumed jurisdiction over acquisitions of nonjurisdictional facilities. Re Portland General Electric Co. (1938) 1 FPC 709; Re Public Service Electric & Gas Co. (1938) 1 FPC 748; Re Portland General Electric Co. (1939) 1 FPC 773. From 1940-1944 it disclaimed jurisdiction over the acquisition of local distribution facilities in the three instances cited in footnote 11, *infra*. From 1944 to date it has assumed jurisdiction over such acquisitions in numerous cases. See cases cited footnote 1, *supra*, and Re Otter Tail Power Co. (1944) 4 FPC 699; Re Utah Power & Light Co. (1944) 4 FPC 791; Re Missouri Pub. Service Corp. (1945) 4 FPC 855; Re Wachusett Electric Co. (1945) 4 FPC 920; Re Worcester Suburban Electric Co. (1945) 4 FPC 929; Re Central Vermont Pub. Service Corp. (1945) 4

FPC 1001; Re California Oregon Power Co. (1945) 4 FPC 1116; Re Connecticut Power Co. (1947) 6 FPC 451; Re Arkansas-Missouri Power Co. (1949) Opinion No. 176, 78 PUR NS 146; Re Hartford Electric Light Co. Docket No. E-6201, March 29, 1949; Re Atlantic City Electric Co. Docket No. E-6216, June 23, 1949; Re California Electric Power Co. Docket No. E-6222, Oct. 25, 1949; Re Virginia Electric & Power Co. Docket No. E-6248, Dec. 13, 1949; Re Kentucky Utilities Co. Docket No. E-6253, Dec. 20, 1949; Re Granite State Electric Co. Docket No. E-6256, Jan. 31, 1950; Re Metropolitan Edison Co. Docket No. E-6113, March 7, 1950.

<sup>4</sup> Section 201(e) reads as follows:

"The term 'public utility' when used in this Part or in the Part next following means any person who owns or operates facilities subject to the jurisdiction of the Commission under this Part."

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the act. For, as we have indicated, it is unquestioned that the companies who formerly owned and operated the facilities and from whom they were acquired were not such "public utilities," and that Penelec's status as a "public utility" is not dependent on these facilities. Our problem is whether § 203(a) requires Penelec, admittedly a "public utility" by reason of its ownership and operation of other, jurisdictional facilities, to obtain Commission approval before consummating such an acquisition of local distribution facilities. If it does, § 201(b), which defines jurisdictional facilities, makes plain that the Commission's regulatory jurisdiction is not limited to transactions and activities involving only jurisdictional facilities: ". . . The Commission shall have jurisdiction over all facilities for such transmission or sale of electric energy, but shall not have jurisdiction, *except as specifically provided in this Part* and the Part next following, . . . over facilities used in local distribution . . . ." [Italics supplied.]

We come then to the questions as to the meaning of § 203 (a). The more immediately pertinent language of that section is that of the second clause: "No public utility shall . . . by any means whatsoever, directly or indirectly, merge or consolidate such facilities or any part thereof with those of any other person . . . without first having secured an order of the Commission authorizing it to do so." Respondent seeks to support its first contention, that "merge or consolidate" must be construed to mean only transactions of

a dispositive nature, by the arguments that Congress did not mean "purchase" or "acquire" because it did not use those words, and that there is no purpose to be served by Commission regulation of acquisitions of facilities. In the latter regard it says that if the facilities are jurisdictional facilities their disposition can be regulated under the first clause of § 203(a),<sup>5</sup> while if they are local distribution facilities there is no more reason to regulate their acquisition than their disposition, which latter clearly is not regulated. These arguments have been carefully considered.

[3] With respect to the first, we feel that a possible meaning should not be rejected simply because it could have been expressed in other terms. Particularly is that true where, as here, the effect of such a rejection would be to make the whole clause a nullity. That it would have that effect here is clear, for if "merge or consolidate" means only "to dispose of," the second clause adds nothing to what has already been provided by the words: "sell, lease, or otherwise dispose of" in the first clause.

[4] Nor can we agree that no congressional purpose is served by reading the second clause as applying to acquisitions of local distribution facilities. There is clearly involved the purpose of preventing possible excessive burdening or inflation of the acquiring "public utility's" accounts — one of the notorious evils which the Federal Power Act and the Public Utility Act of 1935, of which it was part, were enacted to remedy. We shall herein-after discuss this purpose more fully

<sup>5</sup> The first clause of § 203(a) reads: "No public utility shall sell, lease, or otherwise dispose of the whole of its facilities subject to the jurisdiction of the Commission, or

any part thereof of a value in excess of \$50,000, . . . (without first having secured an order of the Commission authorizing it to do so)."

## RE PENNSYLVANIA ELECTRIC CO.

and we shall point to the facts of this case which aptly illustrate one of those evils. Here it is sufficient to point out that such burdening or inflation of accounts could only occur in the acquirer's accounts—not in the disposing company's. Hence Congress appropriately confined the regulation of dispositions, in the first clause of § 203(a), to dispositions of jurisdictional facilities. In such dispositions there are opportunities for regulatory action which can protect or promote integration and coordination of facilities subject to the jurisdiction of the Commission, which was also one of the primary purposes of the legislation. But the regulation of all acquisitions, by the second clause, affords opportunity for preventing the burdening or inflation of the acquiring public utility's accounts, and the language should be construed to effectuate that purpose.

Not only are respondent's arguments against a reading of the second clause as applying to acquisitions of facilities therefore not persuasive, but we believe the natural meaning of the language employed, particularly when read in the light of the congressional purpose referred to, requires such a meaning.

"... by any means whatsoever, directly or indirectly, merge or consolidate such facilities or any part thereof" clearly was not written to describe the strict legal concepts of corporate merger and consolidation.<sup>6</sup> This language speaks of merger or consolidation of *facilities*, not of corporate

entities. It expressly includes transactions involving parts of corporations' facilities, and is not confined solely to transactions involving the whole of a corporation's facilities as would ordinarily be the case in a strict corporate merger or consolidation.

When we turn to the dictionary definition of the terms merge and consolidate we find that an acquisition and amalgamation of the facilities acquired into the acquirer's existing system, such as is here involved, is squarely within the meaning of each. Funk & Wagnalls defines consolidate: "1. *t. i.* To unite into a coherent mass; make solid, firm or coherent. 2. To combine into one body or system; form a union of: as, to *consolidate* the forces of an army. 3. To unite in one common fund: as, to *consolidate* the city's revenues. 4. Surg. To unite, as a broken bone or a wound, by means of a consolidant." And merger: "1. *t. i.* To sink the identity or individuality of; cause to disappear, be combined, or be swallowed up: with *in* or *into*."

The record here clearly discloses that by this purchase Penelec will combine its facilities and those purchased into a single system owned, maintained, operated, and administered as one body or system; united; combined; joined together.

The purposes of Congress in the enactment of the statute as disclosed in the legislative history, already referred to, confirms the applicability of the second clause to such an acquisition. From the specifically declared inten-

<sup>6</sup> "Strictly speaking, a consolidation means the unifying of two or more corporations into a single new corporation, having the combined capital, franchises, and powers of all of its constituents. And, strictly speaking, a merger means the absorption of one corporation by

another, which retains its name and corporate identity with the added capital, franchises, and powers of the merged corporation." State v. Atlantic Coast Line R. Co. (1918) 202 Ala 558, 560, 81 So 60, 62.

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tions of the draftsmen of the bill, the explanations of the sponsors and even the conclusions reached by the opponents of the bill, there is no doubt that § 203 of the act was applicable to acquisition of facilities.

Thus solicitor Dozier DeVane, one of the draftsmen of the proposed legislation, testified before the House Committee on Interstate and Foreign Commerce as follows:<sup>7</sup>

*Mr. DeVane.* . . . Section 205 has for its purpose the requirements that authority shall be obtained from the Commission for the encumbrance of property.

*Mr. Bulwinkle.* Sale between companies.

*Mr. DeVane.* Purchase and sale of property between companies.

The § 205 referred to by Mr. DeVane later became § 203 of the act, and in all material matters similar to 203.

The application of the section as stated by Mr. DeVane followed a query by Congressman Huddleston whether the power to regulate the acquisition of property was provided to see that there was no loading down of the industry with unnecessary facilities. Mr DeVane replied:<sup>8</sup>

*Mr. DeVane.* The control of the acquisition of sale is broader than that; it is much broader than that, Mr. Huddleston.

"One of the great difficulties of the industry is that in the past fifteen years it has been entirely too much in the hands of bankers, and I say in all sincerity that I think a great many of the abuses referred to during this hearing are not properly chargeable to

the operating people in the industry but are due to the belief that exists in the minds of many people in this country that they have just as much right to speculate with the property of the public service corporations as they have with the property of any other private business, and they have done it.

"Control of the acquisition and sale of these properties in the public interest should put an end to this trafficking and the industry can offer no serious objection to a provision of this kind in the law. When the Congress says that these properties are going to be bought and sold in the public interest, the industry will, in my opinion, acquiesce in such a policy.

Commissioner Seavey, another of the draftsmen of the bill, clearly set forth in his analysis of the section:<sup>9</sup>

". . . The following two sections make effective the Commission's control (§ 205) over the sale or encumbrance of facilities or the merger, consolidation, or acquisition of properties, and (§ 206) over security issues of electric utilities subject to the Commission's jurisdiction."

At page 1261 of the House Hearings already cited, a memorandum by Ralph B. Feagin of Baker, Botts, Andrews, and Wharton, of Houston, Texas, opponents of the bill, recognized that § 205 (the present § 203) was applicable to "acquisition or sale of securities or capital assets, consolidations or mergers, (etc.)."

The analysis of the section in a memorandum submitted on behalf of the Electric Bond & Share Co. is to the

<sup>7</sup> Hearings, House Committee on Interstate and Foreign Commerce, on H.R. 5423, 74th Cong. 1st Sess. p. 2152.

<sup>8</sup> Ibid. pp. 2150, 2151.

<sup>9</sup> Ibid. p. 385.

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same effect. See page 2297 of the House Hearings.

And finally, the Minority Views of the Senate Committee Report (Report No. 621 on S. 2796, 74th Cong. 1st Sess. p. 5) leave no doubt that the section was interpreted as granting the Commission jurisdiction over "acquisition of any facilities or assets."

We therefore turn to respondent's further argument, that if the second clause of § 203(a) applies to acquisitions at all, it does not apply to an acquisition of local distribution facilities.

Any attempt to arrive at the answer to the question thus raised must begin with a careful consideration of the wording of the second clause of § 203(a). The language "merge or consolidate *such* facilities or any part thereof with *those* of any other *person*," presents the question: does "those" include purely local distribution facilities? The meaning of the critical word "those" is not altogether clear. It may refer to facilities in a more general sense, rather than specifically to "such facilities." If so, the clause means: merge or consolidate facilities subject to the jurisdiction of the Commission with *facilities* of any other person.

The antecedent of "such facilities" is found in the words "facilities subject to the jurisdiction of the Commission." But the difficulty with treat-

ing this phrase as fixing the meaning of "those" is that in that case the "person" referred to by the words "any other person" would in every case be a "public utility" (by reason of its ownership of such jurisdictional facilities) and this would conflict with Congress' use of the term "person" in a more broadly inclusive sense than the term "public utility." "Person" is not only expressly defined (§ 3) more broadly than "public utility" (§ 201) but is consistently so used throughout the act, in careful distinction from the term "public utility." Other examples of Congress' use of the two terms in juxtaposition in the same section with intentionally distinct meanings are found in §§ 202(b), 204(a), 205(b).<sup>10</sup>

In order to give significance to the breadth of the term "person" it is therefore necessary to read it as including some who own or operate only *facilities other than the jurisdictional facilities* referred to in the grammatical antecedent of "such facilities," and to construe "merge or consolidate . . . with *those*," as including a merger or consolidation with such other facilities.

How broadly should "those" be construed in order to give Congress' use of the word "person" proper significance? This is the question that has given this Commission difficulty, reflected in the orders already referred to.<sup>11</sup>

One construction of "those" would

then only to the extent that, upon application by the *public utility*," etc.

205(b)

"No *public utility* shall, with respect to any transmission or sale subject to the jurisdiction of the Commission, (1) make or grant any undue preference or advantage to any *person* or subject any *person* to any undue prejudice or disadvantage," etc.

[Italics supplied.]

<sup>11</sup> Re The Maryland Pub. Service Co. (1940)

84 PUR NS

<sup>10</sup> 202(b)

"Whenever the Commission, upon application of any state Commission or of any *person* engaged in the transmission or sale of electric energy, and after notice to each state Commission and *public utility*," etc.

204(a)

"No *public utility* shall issue any security, or assume any obligation or liability as guarantor, indorser, surety, or otherwise in respect of any security of another *person*, unless and until, and



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be to go only so far as necessary to eliminate any limitation of the facilities referred to, to those used in interstate commerce. So construed, the second clause of § 203(a) would apply to any merger or consolidation by a public utility of its facilities subject to the jurisdiction of the Commission with facilities<sup>12</sup> for the transmission or sale at wholesale of electric energy in (interstate or intrastate) commerce.

This basis would explain all of this Commission's three orders disclaiming jurisdiction over acquisitions of local distribution facilities prior to 1944<sup>13</sup> as well as the Commission's assertion of jurisdiction in 1939 over an acquisition of an intrastate transmission facility in *Re Portland General Electric Co.* [1939] (1 FPC 773, 774, finding (12)).<sup>14</sup>

Furthermore such an interpretation could be supported as serving the congressional purpose of securing the integration and coordination of facilities for transmission and sale at wholesale in interstate commerce. Cf. §§ 202(a) and (b); 203(b). For, clearly, mergers of public utilities' interstate transmitting and wholesaling facilities may provide effective opportunities for regulatory action protecting and promoting the integration and coordination intended to be advanced by the act.

But another and important purpose of Congress was to remedy and prevent the recurrence of the corporate and financial abuses which flourished in the utility field in the nineteen

twenties. Federal Trade Commission Report, Sen. Doc. 92, 70th Cong. 1st Sess. Part 73 A, pp. 117, *et seq.*; Part 72, Chap V, pp. 179-304; see the testimony of draftsmen of the bill and others on § 203 referred to above; Davis, *Influence of F.T.C. Investigations*, 14 Geo. W.L.R. 21; DeVane, *Highlights of Legislative History*, 14 Geo. W.L.R. 30, 35, 36; compare House Hearings on H. R. 2972 and 2973, 80th Cong. 1st Sess. pp. 334, 335, 509-512, 530, 533-535, 539-541. Noteworthy among those evils was the transfer of utility properties from one corporation to another at greatly increased figures, and the weighting down of the capital structures of utilities with excessive capitalization and inflation.

Thus a major purpose of Congress in enacting the statute as well as the explicit definition of the word "person" is given full effect by interpreting the second clause of § 203(a) to include all mergers or consolidations by a public utility with any electric utility operating property which might be vehicles for excessive capitalization or inflation of electric utility plant accounts, or, at any rate, all that exceed the whole-or-\$50,000-value minimum.

We have therefore concluded that the "merge or consolidate" clause should be read as applying to a transaction such as the present one in which a "public utility" acquires and merges its facilities subject to the jurisdiction

2 FPC 700; *Re Portland General Electric Co.* (1941) 2 FPC 1020; *Re Pennsylvania Electric Co.* (1942) 3 FPC 646.

<sup>12</sup> Such facilities not including facilities used for generation, in local distribution, or for the transmission of electric energy consumed wholly by the transmitter.

<sup>13</sup> See footnote 3, *supra*, p. 3.

<sup>14</sup> The order in the Portland Case would be in conflict with the other decisions prior to 1944 cited in footnote 11, if those decisions were to be regarded as disclaiming jurisdiction over all acquisitions. So also as to orders authorizing acquisitions of jurisdictional facilities. See e.g., *Re Roberts County Power Co.* (1940) 2 FPC 721.



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of the Commission with electric utility facilities of other persons, even though used solely for local distribution.<sup>15</sup> A consideration of the purchase price paid, to which we turn next, will illustrate the utility of such a reading of the act to serve the ends of Congress in enacting the statute.

### *The Purchase Price and Accounting for the Excess over Depreciated Original Cost*

[5] We have searched the record in vain for an adequate explanation of why Penelec should pay \$300,000 for local distribution facilities having a depreciated cost of \$136,048.14, amounting to an excess of \$163,951.86, or 120 per cent.

The evidence, consisting of respondent's own officers' testimony, is that the depreciated original cost of \$136,048.14 represented the physical value of the facilities acquired and that the only justification for paying the additional 120 per cent was that it represented the value of possible future earnings and economies resulting from the merger of the properties with those of Penelec.

But there is no adequate support for any such attempted justification. An exhibit put in by respondent shows annual net operating revenue of \$10,500 for all three properties, or a little over 3 per cent on an investment of \$300,000. Respondent's vice president

Kirsch said that 3 per cent was not a fair return and indicated the absence of any prospect of earning a fair return on the investment:

Q. That would mean that you would have to increase the net revenue by about eight or nine thousand dollars, I suppose, to bring it up to about 6 per cent. Did you have anything not reflected here to indicate how you were going to get that increase in revenue, or how long it would be before you would be able to get that increase?

A. No, I couldn't anticipate the time necessary to bring it up to that basis.

The only possibility for increasing the revenues from these particular properties is by increasing per customer consumption which, if it rose to respondent's averages,<sup>16a</sup> would increase the gross annual revenue from \$126,000 to \$178,000, but respondent had not computed what the effect, if any, of such increase in gross revenues would be on net income. Nor was respondent able to show an estimate of operating economies, if any, or indicate how they would arise.

Furthermore, any possibility of increase in net revenues from either of these directions would be offset in whole or part by the apparent necessity for nearly doubling the depreciation charges if they are to be made adequate.

<sup>15</sup> We are aware of some bits of legislative history of the Federal Power Act that are ambiguous or possibly verbally inconsistent with such a reading. We believe, however, that the interpretation we have placed on the section is most faithful to the literal wording of the statute, most consonant with the major purposes of the legislation, and is at the same time simple and workable.

<sup>16a</sup> Respondent is putting its own standard retail rates into effect in Cresson, Gallitzin, and

Hastings, thus reducing rates by approximately \$30,000 a year. The effect of this reduction is to give the consumers in those communities approximately the amount of the profit which Pennsylvania Coal and Coke Corporation had previously extracted. Although Pennsylvania Coal and Coke owned no electric facilities itself, it bought energy from Penelec and resold to its three electric subsidiaries at approximately \$30,000 a year profit, while Penelec made delivery direct to the subsidiaries.

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But it does not follow that Penelec proposes to throw away its own money. It proposes to recoup the \$163,951.86 excess through annual charges of approximately \$11,000 each to operating expenses for the next fifteen years. It will classify the excess in Account 100-5, Electric Plant Acquisition Adjustments, and proposes to amortize it through charges to Account 505, Amortization of Electric Plant Acquisition Adjustments, in the operating expense section of the income statement, "above the line" of return on investment. In this way over the next fifteen years if the rates from its customers generally provide sufficient revenue to defray operating expenses (including this \$11,000 item, taxes and depreciation) plus a fair return on its net investment (including the portion of the \$163,951.86 not previously amortized) Penelec would collect the entire excess from its customers.

But as we said in *Re Virginia Electric & Power Co.* ([1944] 4 FPC 51, 54, 55, 53 PUR NS 70, 73):

"... So long as a prospective purchaser of a utility property has the assurance that consumers can be compelled to foot the bill, there is no incentive to insure that such transactions will be consummated in a manner that will serve the public interest in economical electric service.

"Such a bargain may be the result of protracted 'arm's-length' negotiations between the buyer and the seller, but the third party to the transaction—the rate-paying customer—is not consulted and has no protection except

through the vigilance of regulatory authorities. It was this type of abuse, among others, which the Holding Company Act and the Federal Power Act were designed to prevent."

While the dollar amounts here involved are relatively small, the principle is plain: this is the "value merry-go-round"<sup>10</sup> again. Upon that merry-go-round it is only necessary to assume a utility property has a value, however excessive; use that value as a basis for obtaining revenues that will provide a return on it; and the existence of the value is proved.

No other reason why Penelec should be willing to pay such an excessive price appears from the record. Penelec does not appear to be affiliated with Pennsylvania Coal and Coke Corporation which owned the selling companies, or its parent Clearfield Bituminous Coal Company, or that corporation's parent, New York Central Railroad. Penelec has heretofore supplied all of the energy requirements of these properties as well as Pennsylvania Coal and Coke Corporation's requirements for its mines in the vicinity. But we are without evidence of any benefit Penelec might expect to derive from such an excessive payment, and certainly without any evidence which would justify treating the amortization of the excess as an operating expense.

Under such circumstances, upon an application duly filed by Penelec under § 203(a) for authority to consummate the transaction we would have found that the public interest requires that the excess of the acquisition cost over depreciated original cost be amortized

<sup>10</sup> See *Hale, The Fair Value Merry-Go-Round*, 33 Ill L Rev 517; cf. *Federal Power Commission v. Hope Nat. Gas Co.* (1944) 320

US 591, 601, 88 L ed 333, 51 PUR NS 193, 64 S Ct 281.

## RE PENNSYLVANIA ELECTRIC CO.

out of income by equal monthly charges over a period of not to exceed five years to Account 537, Miscellaneous Amortization, "below the line," and we would require such accounting as a condition to granting our authorization for the consummation of the transaction. In the present circumstances, we find that it is necessary and appropriate to the administration of the act to require such amortization as a condition to the retention of the properties and as proper accounting.

### *Imposition of Penalties Not Here Important to the Administration of the Act*

[6] Respondent argues that if it has violated § 203, its violation was not one committed wilfully and knowingly within the meaning of § 316(a), 16 USCA § 825*o*, citing Rainbow Drying & Cleaning Co. v. Bowles (1945) 80 US App DC 137, 150 F2d 273, and McRae v. Creedon (1947) 162 F2d 989. It argues that "where the words 'wilful and knowing' are used in a criminal statute, the accused must have acted 'with a bad purpose,'" citing Felton v. United States (1878) 96 US 699, 24 L ed 875 and Screws v. United States (1945) 325 US 91, 89 L ed 1495, 65 S Ct 1031. Our staff replies that even under the criteria enunciated in the Rainbow and McRae Cases respondent's violation was knowing and wilful and argues that the Felton and Screws Cases are inapplicable to an act which is malum

prohibitum as distinguished from one malum in se, citing United States v. Illinois C. R. Co. (1938) 303 US 239, 242, 243, 82 L ed 773, 58 S Ct 533, and Sinclair v. United States (1929) 279 US 263, 299, 73 L ed 692, 49 S Ct 268, as controlling. It points to the three months of correspondence and conferences during which respondent could have obtained a Commission decision as to the proper interpretation of § 203(a), and to the fact that the respondent consummated the transaction in the face of a Commission order initiating a formal proceeding to determine that question.

However, in view of the fact that we have in our orders prior to 1944 manifested some uncertainty as to the proper construction of the language of the section, and have not heretofore formally announced our reasons for our interpretation, we abstain from any findings or action in regard to penalties. We feel that an authoritative settlement of the substantive question is of more importance to the administration of the act than exaction of penalties from respondent. This is particularly true under the circumstances of this case where the only adverse element of the substantive transaction itself appears to be in the amount of the purchase price, as to which we can, and by our order herein will, require the accounting treatment which we would have required if the matter had been duly submitted to us by an application for advance approval.

An appropriate order will be entered.

CALIFORNIA PUBLIC UTILITIES COMMISSION

Re Associated Telephone Company,  
Limited

Decision No. 44135, Application No. 30339  
May 2, 1950

**A**PPPLICATION for authority to increase telephone rates; rate increase authorized.

*Accounting, § 32 — Telephone company — Cost of materials and supplies.*

1. Only the actual cost of materials purchased by a telephone company from war surplus stock should be recorded in its books of account, p. 112.

*Expenses, § 112 — State corporation franchise tax — Current basis.*

2. The state corporation franchise tax should be placed on a current basis in an earnings estimate, since the magnitude of taxes on income is affected by any changes in revenues or expenses, including changes in rates, p. 112.

*Expenses, § 109 — Ad valorem taxes — Accrual basis.*

3. The effect of accruing ad valorem taxes during the preceding calendar year, not only upon tax accruals but also upon cash working capital requirements, has been recognized, although most utilities follow the practice of accruing the ad valorem taxes for a given fiscal year during that fiscal year, p. 112.

*Expenses, § 49 — Past service pension cost.*

4. A telephone company was allowed to deduct past service pension costs which were a portion of amounts charged to operating expense in prior years and representing the amount currently deductible for tax purposes in computing estimated taxes on income, p. 112.

*Valuation, § 224 — Additional plant investment — Dial telephone conversion.*

5. A telephone company's rate base should reflect on a full-year basis the additional plant investment incident to dial conversion where the company has included the expense savings from dial conversions on a full-year basis, p. 114.

*Return, § 24 — Maintenance of credit — Telephone company.*

6. A telephone company's earnings must be sufficient to preserve and maintain its credit and to permit it to sell additional securities upon reasonable terms, where it is in the public interest for it to proceed with its program of plant expansion, p. 115.

*Rates, § 544 — Telephone — Business individual line messages.*

7. The closing of a telephone company's business individual line message rate extended schedule was considered undesirable, p. 117.

*Rates, § 538 — Telephone — Uniformity.*

8. Rates for telephone service applicable in any one area should not place an unreasonable burden on the balance of the company's customers, p. 118.

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**APPEARANCES:** Marshall K. Taylor, Donald C. Power, and O'Melveny & Myers by Harry L. Dunn and Sidney H. Wall, for applicant; K. Charles Bean, T. M. Chubb, and Roger Arnebergh, for the city of Los Angeles; J. J. Deuel and Edson Abel, for the California Farm Bureau Federation; Henry M. Busch, for the cities of Ontario and Upland; William J. Donahue, for Aerojet Engineering Corporation; Joel E. Ogle, for the county of Orange; Emmett J. Ward, for the Director of the State Department of Finance, state of California; Irving M. Smith and Joseph B. Lamb, for the city of Long Beach; H. R. Griffin, for the city of San Bernardino; Carroll Weberg, for the Bellflower Chamber of Commerce; Frank V. Rhodes, for the California Independent Telephone Association; Royal M. Sorensen, for the city of Santa Monica; Henry E. Jordan, for the Bureau of Franchises and Public Utilities of Long Beach; and R. Joel Andrus, in propria persona.

By the **COMMISSION:** By the above-entitled application, filed May 24, 1949, and amended August 22, 1949, the Associated Telephone Company, Ltd., sought authority to increase certain telephone rates and charges in the amount of \$2,493,680 annually. The applicant is a California corporation engaged in furnishing telephone exchange and toll service to approximately 390,000 telephone stations in 34 exchanges located in the counties of Los Angeles, Orange, San Bernardino, Santa Barbara, Ventura, Tulare, Kern, and Fresno.

Public hearings were held on September 15 and 16, 1949, in Los Angeles, before Commissioner Huls and examiner Howard; and on October 3,

1949, before examiner Chiesa. On October 3rd, the applicant's motion for an interim increase was taken under submission, and the hearing was adjourned to a date to be set. An interim rate increase totaling \$1,100,000 on an annual basis was authorized by Decision No. 43423 issued October 18, 1949, 82 PUR NS 25. The toll rates and installation charges authorized were effective November 16, 1949, and the exchange rates were effective by billing periods beginning as of that date.

On December 23, 1949, applicant filed an amendment to the amended application for the purpose of (1) bringing within the application the Oxnard, Santa Paula, Thousand Oaks, Fowler, Lindsay, and Reedley exchanges, acquired by the applicant since the filing of the first amended application, and (2) revising the estimate of toll revenues set forth in said first amended application which had been testified to during the course of the hearings held in September, 1949. On February 21, 1950, the applicant filed another amendment, titled the third amended application, requesting further increases in rates to provide annual operating revenues of approximately \$3,742,000, in addition to the \$1,100,000 authorized in the interim order.

Public hearings on the third amended application were held on March 8, 9, and 10, 1950, in Los Angeles, before Commissioner Huls and examiner Howard. During the course of these hearings, evidence was introduced by witnesses for the applicant, the Commission staff, and other interested parties. After completion of the direct presentations by the parties, ap-



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plicant agreed to submit the matter, subject to filing of briefs within ten days, in lieu of further hearings for the purpose of cross-examination. This suggestion met with approval of the other interested parties present, and the matter was submitted subject to the filing of briefs.

In reviewing the evidence, we shall not repeat that which was set forth in the interim opinion and order (Decision No. 43423, dated October 18, 1949, *supra*) in this present proceeding, and this opinion and order should be read as though said decision were incorporated herein, modified to the extent warranted by the additional evidence now before the Commission.

By reason of the continued rapid population growth and increase in demand for telephone service in the territory served, the upward trend in applicant's plant and facilities experienced during the past several years is continuing. The evidence shows that the applicant's investment in telephone plant in service increased from \$33,-093,337 on January 1, 1947, to \$73,-418,219 on January 1, 1950, or 122 per cent. During the same period,

applicant's telephone stations increased from 215,939 to 387,546, or 79 per cent. Over 95 per cent of the telephone stations served by the applicant are dial. The applicant's construction program during 1950 is estimated to result in a net increase of approximately \$18,891,000, or 26 per cent in the investment in telephone plant. The primary purposes of this large plant expansion program are to provide sufficient facilities to furnish service to applicants waiting for telephone service, of which there were 18,980 on January 1, 1950, and to make available higher grades of service for present subscribers who desire to be upgraded or are being furnished a lower grade of service on a deviation basis.

## Earnings

The following table presents a comparison of the applicant's and the Commission staff's estimates for the year 1950 under the rates presently in effect, and shows also the results under proposed rates as estimated by the applicant. The results are related to an original cost rate base less depreciation reserve:

Item	1950 Estimates—Present Rates				Company 1950
	Company Estimate	Commission Staff Estimate	Difference—Staff Exceeds Company Amount Per Cent		Estimate Proposed Rates
Operating Revs. ....	\$20,181,668	\$20,463,000	\$281,332	1.4%	\$23,923,276
Operating Exps. ....	10,777,800	10,800,000	22,200	0.2	10,777,800
Depreciation Exp. ....	3,562,607	3,275,000	(287,607)	(8.1)	3,562,607
Taxes .....	3,515,474	3,374,000	(141,474)	(4.0)	5,062,078
Total Operating Expenses ....	17,855,881	17,449,000	(406,881)	(2.3)	19,402,485
Net Revenue .....	2,325,787	3,014,000	688,213	29.6	4,520,791
Rate Base .....	69,550,633	69,575,000	24,367	0.0	69,550,633
Rate of Return .....	3.34%	4.33%	0.99%		6.50%

( )=Red Figure.

Witnesses for the applicant testified that further review since filing the application indicated the possibility

that minor adjustments might be justified in certain revenue and expense amounts included in Exhibit D-2.



## RE ASSOCIATED TELEPH. CO.

These minor adjustments would have a negligible effect on the level of earnings.

The difference between the applicant's and the staff's estimates for the calendar year 1950 at present rates is due principally to (1) the use by the staff of an estimated average station figure of 411,000, compared to the 409,161 used by the applicant, (2) the staff's estimates of expenses for 1950 being based on twelve months' experience in 1949, compared to nine months' experience used by the applicant, (3) the staff's normalizing directory advertising revenues and expense savings due to dial conversions for the full year 1950, whereas the applicant included them as of the date they were to become effective, (4) a difference in the basis of estimating ad valorem taxes, (5) the staff's use of lower depreciation rates than those used by the applicant, and (6) the staff's adjustments to the recorded investment in telephone plant and to the recorded depreciation reserve to reflect actual cost of certain war surplus materials purchased by the applicant.

The staff's estimate of station growth for 1950 is the same as the applicant's estimate. The difference in estimated average stations for the year resulted from the fact that the applicant added the estimated growth in 1950 to the stations estimated to be in service at the end of 1949, based on data available as of September 30, 1949, whereas the staff added the estimated growth to the actual stations at the end of 1949.

### *Revenues*

The difference between the appli-

cant's and the staff's estimates of local service revenues is due to the difference in estimated average stations. The staff's estimate of \$14,777,000 appears to be reasonable.

The net difference in toll service revenues, after making allowance for the higher average station figure used by the staff, is about \$61,000, or 1.2 per cent. The staff's figure was based on a projection through 1950 of a smooth curve fitted to the monthly toll revenues for the last half of 1948 and all of 1949, whereas the applicant's figure was based to a large extent on a judgment decision that toll revenues per station would decline to the level experienced in 1943. After careful consideration of the evidence, we conclude that \$5,000,000 is a reasonable estimate of toll service revenues for 1950.

Miscellaneous revenues estimated by the staff are higher than those estimated by the company because the directory advertising increases authorized by the Commission in 1949, which will become effective on different dates throughout 1950, were included by the staff on an annual basis. We believe the staff's treatment to be proper for such revenues.

### *Operating Expenses*

Maintenance and commercial expenses estimated by the staff are higher than those estimated by the applicant because of the difference in estimated average stations. Traffic expenses estimated by the staff normalized savings which will be realized following dial conversions scheduled for 1950.

Differences in the staff's and applicant's estimates of general office sal-

## CALIFORNIA PUBLIC UTILITIES COMMISSION

aries and expenses and other operating expenses are minor in character and amount.

The applicant, in its brief, pointed out an inconsistency in the staff's estimate of expenses, relative to those which will become effective or will be eliminated during the year. In calculating the rate of return to be realized from the rates authorized herein, the savings from dial conversion are reflected on a full-year basis and, consistent therewith, adjustments have been made in operating rents, rate base, depreciation expense, and taxes.

### *Depreciation Expense*

Depreciation rates used by the applicant and those used by the staff in calculating the depreciation expense were determined on a straight-line basis. Service lives and salvage factors were estimated by both the applicant and the staff in developing the depreciation rates for the individual accounts. The composite depreciation rate, excluding Account 264, Vehicles and Other Work Equipment, estimated for the year 1950 by the applicant is 4.80 per cent, whereas that estimated by the staff is 4.38 per cent. The evidence reveals that the applicant does not have data readily available for the derivation of mortality statistics from which depreciation lives and salvage factors can be determined. The evidence further shows that the staff witness adopted the depreciation rates shown at page 24 of Exhibit 53 after consultation and detailed discussion with other engineers of the Commission staff. The staff has available the lives and salvage factors used for

other California telephone operations in the same general areas as those of the applicant, for which mortality statistics have been maintained. For the purpose of this proceeding, the staff's estimates of depreciation expense will be adopted.

No finding will be made herein as to the correctness of the applicant's depreciation accounting. As indicated by the record in this proceeding, the applicant has never made a comprehensive study as to the adequacy of its depreciation reserve or its depreciation rates, even though the reserve at the end of 1949 amounted to approximately \$16,674,000 and estimated accruals to the reserve in 1950 are over \$3,250,000. The record also indicates that at present the applicant lacks sufficient data to make such studies. The applicant should take immediate steps to correct this situation, so that the necessary statistical data will be available, not only for the future, but also for past experiences as well, to the extent that it can be developed from applicant's existing records.

[1] The testimony of a staff witness indicated that the company has recorded on its books of account more than the actual cost of certain materials purchased from war surplus stocks. Inasmuch as this is not in accordance with the uniform system of accounts, the company should take steps immediately to prevent the continuation of such procedures and to correct its records so as to show only the actual cost of such materials.

### *Taxes*

[2-4] The following table summarizes the 1950 tax estimates of appli-

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cant and the Commission staff, and are in ad valorem taxes and in taxes  
shows that the principal differences on income:

Type of Tax	Applicant	Staff	Difference	
			Amount	Per Cent
Ad valorem .....	\$1,900,437	\$1,618,200	\$(282,237)	(14.9)%
Other local .....	290,192	295,500	5,308	1.8
Social Security .....	417,423	395,000	(22,423)	(5.4)
State corp. franchise .....	93,156	108,700	15,544	16.7
Federal income .....	814,266	956,400	142,134	17.5
Total .....	3,515,474	3,373,800	(141,674)	(4.0)

( )=Red Figure.

Of the \$282,237 difference in ad valorem tax estimates, approximately \$63,500 is due to differences in the estimates of assessed valuation and applicable tax rates. As to these differences, the staff's estimates appear reasonable. The remainder, approximately \$218,700, is due to the fact that applicant's estimate represents 1950, 1951 fiscal year taxes, while the staff's estimate, which follows applicant's accrual procedure, comprises one-half of the 1949-1950 taxes plus one-half of estimated 1950, 1951 taxes.

While the majority of California utilities follow the practice of accruing the ad valorem taxes for a given fiscal year during that fiscal year, several companies accrue the tax during the preceding calendar year. Where this is done, the effect of such practice, not only upon tax accruals but also upon working cash capital requirements, has been recognized.

Applicant states that the staff's adherence to the book accrual basis for ad valorem taxes in the present proceeding is inconsistent with its use of a current-basis estimate for state corporation franchise tax. The magnitude of taxes on income is affected by any changes in revenues or expenses, including changes in a utility's

rates for service. For this reason, the Commission has uniformly placed the state corporation franchise tax on a current basis in earnings estimates. Ad valorem taxes are not affected by such factors; hence, estimates have been based in each case upon the company's accrual procedure. In this instance, due to the very large construction program and an increase in tax rates, the applicant is faced with an estimated increase of over 30 per cent in ad valorem taxes in a single year. Giving consideration to this unusual circumstance, an amount of \$1,740,000 will be adopted for ad valorem taxes for the year 1950.

In computing estimated taxes on income, the applicant has deducted \$103,542 of past service pension costs, being a portion of amounts charged by it to operating expense in prior years and representing the amount currently deductible for tax purposes. To be consistent with a policy of excluding past service pension charges from operating expenses, the staff did not make this deduction. In view of the circumstances surrounding the provision for applicant's past service pension obligations, it is believed that equity justifies making the deduction in this instance.

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### *Rate Base*

[5] There is little controversy as to the rate base, the company and staff estimates for 1950 differing by only \$24,367. Inasmuch as we have included the expense savings from dial conversions on a full-year basis, the rate base should likewise reflect on a full-year basis the additional plant investment incident to such dial conversions. Applying this adjustment, estimated at \$460,000, to the staff's rate base of \$69,575,000 results in a rate base of \$70,035,000 which is hereby adopted.

### *Summary of Present Earnings*

Giving effect to the adjustments hereinabove discussed, the estimated results of operations for the year 1950 under present rates are as follows:

Revenues .....	\$20,409,000
Operating Expenses .....	10,839,000
Depreciation Expense .....	3,290,000
Taxes .....	3,416,000
Total Operating Expenses .....	17,545,000
Net Revenue .....	2,864,000
Rate Base .....	70,035,000
Rate of Return .....	4.09%

### *Financing of Properties*

In general, applicant has financed its net investment in its properties through the issue of first mortgage bonds, preferred stock, and common stock and through the use of earnings. The record contains testimony and exhibits showing the terms under which it has disposed of its outstanding securities, the effective interest rates, the earnings and dividends on the common stock and the interest and dividend requirements. The following tabulation shows the amount of each class of security outstanding at the

close of 1949 and as estimated by applicant at the close of 1950:

	1949	1950
Bonds .....	\$33,618,000	\$41,618,000
Preferred stock .....	13,854,820	17,354,820
Common stock .....	14,160,755	17,660,755
Total .....	61,633,575	76,633,575

A member of the Commission staff estimated the effective interest rate applicable to the presently outstanding bonds at 3.01 per cent and to the preferred stock at 4.70 per cent, with a weighted average for the two classes of securities of 3.51 per cent. With respect to the common stock, which is divided into shares of the par value of \$20 each, the record shows that during the last five years the earnings per share, based on the number of shares outstanding at the close of the year, and the dividends paid, have been as follows:

	Earnings	Amount	Dividends Per Cent
1945 .....	\$1.47	\$1.32	6.6%
1946 .....	2.39	2.00	10.0
1947 .....	1.77	1.80	9.0
1948 .....	1.84	1.60	8.0
1949 .....	1.12	1.60	8.0

A witness called on behalf of applicant testified that applicant required annual net earnings of \$4,806,355 to pay interest and dividends on the stock and bonds estimated to be outstanding at the close of 1950, including an allowance of \$2.66 a share on the common stock which he asserted is necessary to enable applicant to sell additional shares. However, in arriving at his conclusions it appears, from Exhibit 9 dated September 15, 1949, that he estimated the issue during 1949 of \$6,000,000 of bonds on a 3½ per cent basis, \$2,000,000 of preferred stock and \$5,000,000 of common stock,

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whereas the actual issues during the year, according to a later exhibit (No. 53) included \$9,000,000 of bonds on a 2.9 per cent basis, \$2,037,200 of preferred stock (exclusive of shares issued in payment for properties) on a basis of slightly less than 5 per cent, and \$2,483,680 of common stock. In the witness's calculations, no allowance was made for interest during construction, which, based upon applicant's estimate, would increase the net income available for dividends by \$120,000 or approximately 15 cents a share on the average number of shares estimated to be outstanding during 1950. In connection with the common stock it should be noted that while all the presently outstanding shares are held by General Telephone Company, the witness for applicant based his figure of \$2.66, as the required earnings, on the assumption that the market price of shares of applicant's stock should be 7.5 times the earnings per share and that a public offering of common shares at par (\$20 a share) would be at a price approximately equivalent to 7.5 times the reported required earnings of \$2.66. There is nothing in the record, however, to indicate that applicant is contemplating the public offering of its shares of common stock. Therefore, this reasoning is not applicable to this company's financing.

[6] The record does show that applicant is faced with substantial construction expenditures during 1950 and that it is considering the issue during the year of \$8,000,000 of bonds, \$3,500,000 of preferred stock and \$3,500,000 of common stock. It is in the public interest for applicant to proceed with its program of plant

expansion and it is clear that to enable it to do so, its earnings must be sufficient to preserve and maintain its credit and to permit it to sell additional securities under reasonable terms. At the same time, it should be noted that the estimated required earnings of \$2.66 a share of common stock are substantially in excess of earnings experienced in prior years, and that the estimated total requirement of \$4,806,355, on an annual basis, if realized, would in fact produce earnings per share in excess of \$2.66. The estimated requirement is also subject to reduction due to the difference between the security issues assumed by the applicant's witness and the securities actually issued in the latter part of 1949.

### *Amount of Rate Increase*

A review of the record indicates that the Commission is not warranted in approving applicant's request to increase its rates to provide additional annual operating revenues of \$3,742,000. It clearly appears, however, that some increase is proper and is required to produce for applicant a reasonable return on its investment. It is concluded that increases aggregating \$2,200,000 on an annual basis should be authorized.

An increase of \$2,200,000 in annual operating revenue, if it were in effect for the entire year 1950, would produce an estimated return of 5.9 per cent on the rate base of \$70,035,000. However, the increases will be in effect for only a portion of 1950. Also, the record indicates that applicant's rate of return has been declining due to its large construction program and the present high level of construc-



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tion costs, and this decline is expected to continue. The decline in applicant's rate of return which might otherwise be anticipated during the year 1950, because of the reasons above stated, is somewhat lessened by the inclusion in the rate base of an additional \$460,000 to reflect, on a full-year basis, the additional plant investment due to the dial conversions. On the basis of the evidence submitted, we find that the rate increases to be authorized will yield applicant a reasonable rate of return.

### *Distribution of Rate Increase*

The increases in rates which the applicant proposes are set forth in detail in Exhibit C-2 attached to the third amended application. These increases cover generally the same services for which increases were requested in the first amended application, except that no further increase in toll telephone rates is proposed. The proposed local service rates for each exchange are based on the number of stations served, and the proposed extended service rates for Los Angeles extended area exchanges are based on station availability. The earnings shown in the application are for all exchanges combined, but Exhibit 43, introduced by the applicant at the request of the staff, sets forth the results of operation by exchanges for the year 1949. The applicant claimed that the information contained in Exhibit 43 was irrelevant and factually unreliable in certain respects. However, it is evident that an indication of the relative earning positions of the exchanges by geographical areas can be obtained from the exhibit. The results, after adjustments to reflect the full-year ef-

fect of the interim increases which became effective in November, 1949, show that the earnings for the group of exchanges in Fresno and Tulare counties and the group of exchanges in Santa Barbara and Ventura counties were relatively low, the earnings for the exchanges in the Los Angeles extended area were higher, and the earnings for the remaining group of exchanges located in Los Angeles, Orange, and San Bernardino counties were the highest.

The basic rates authorized in the following order for the exchanges in the Los Angeles extended area are estimated to produce approximately \$1,214,300 of additional revenue per year. Rates for extended service are increased by varying amounts ranging up to one dollar per month for business and 75 cents per month for residence classifications. Increases in monthly local service rates vary from one dollar to \$3.25 for business and up to one dollar for residence classifications. The rates authorized for miscellaneous services, including increased rates for semipublic service, extension stations, PBX switchboards, directory listings, joint-user service, installations, and other nonrecurring charges are estimated to produce approximately \$144,000 of additional revenue per year. The enlargement of the base rate areas will reduce revenue approximately \$91,300 annually.

The basic rates authorized for the exchanges in Santa Barbara and Ventura counties are estimated to produce approximately \$430,700 of additional annual revenue. Increases in monthly rates for business services range from 25 cents to \$3 and for residence services range up to \$1.50. The rates au-



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thorized for miscellaneous services are estimated to produce approximately \$45,500 of additional revenue per year and enlargement of the base rate areas will reduce revenue approximately \$15,200 per year.

The basic rates authorized in the following order for exchanges in San Bernardino and Orange counties and the Lake Hughes, Lancaster, and Pomona exchanges in Los Angeles county are estimated to produce approximately \$424,000 of additional revenue per year. Monthly increases ranging from 45 cents to \$3 for business services and up to \$1.25 for residence services are authorized. The rates authorized for miscellaneous services are estimated to produce approximately \$34,700 of additional revenue per year, and the enlargement of the base rate areas will reduce revenues approximately \$23,700 on an annual basis.

The following order provides for increases in basic rates for the exchanges in Fresno and Tulare counties, estimated to produce approximately \$32,600 in additional revenue per year. The authorized rates for business and residence services are increased by varying amounts ranging from 75 cents to \$1.25 and from 25 cents to 75 cents, respectively. Increases in rates authorized for miscellaneous services are estimated to produce approximately \$4,400 of additional revenue on an annual basis.

A witness for the California Farm Bureau Federation presented Exhibit 27 showing a suggested schedule of business and residence farmer line rates for various sized exchanges. The rates proposed by the applicant are generally higher than those shown in

Exhibit 27, and the rates for residence service do not vary with the size of the exchange. The rates authorized herein for farmer line service are in general accord with the schedule suggested by the California Farm Bureau Federation's witness.

The applicant requested permission to close the schedule providing a rate differential for wall set station service in its six recently acquired exchanges, the local service schedules in the exchanges in the Los Angeles extended area, the schedule for business individual line message rate extended service in the Santa Monica and West Los Angeles exchanges, and to withdraw by December 31, 1954, the offering of 2-party residence and 4-party business service outside of the Los Angeles extended area.

The closing of the wall set differential schedule in the six recently acquired exchanges will be authorized. The closing of the local service schedules for exchanges in the Los Angeles extended area exchanges will be authorized, except for hotel private branch exchange trunks, suburban service, and foreign exchange service. Extended hotel private branch exchange service presently is offered only in the Santa Monica and West Los Angeles exchanges, and applicant should offer extended hotel private branch exchange service in all its Los Angeles extended area exchanges in order to provide consistent rate treatment. At such time as the applicant files rates for extended hotel private branch exchange service, the closing of the local hotel private branch exchange schedules will be authorized.

[7] The representative of the city

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of Santa Monica objected to the closing of the business individual line message rate extended schedule, and the Commission is of the opinion that such a measure would not be desirable. Message rate business service provides the business user with a service for which the charge varies in relation to usage and provides a service which may be obtained by the smaller users at a minimum rate. If this service is not available, the level of business flat rates in the larger exchanges may reach a point where the small business user is penalized. Appropriate allowance has been made in the revenue estimates to cover the provision of message rate service to all customers who desire such service in West Los Angeles and Santa Monica. The applicant should give consideration to providing extended message rate business and commercial private branch exchange service in all of its exchanges located in the Los Angeles extended area.

The closing of the schedules for 2-party residence service will be author-

ized, but the rate for 4-party business service will be continued. After facilities are available for furnishing service to all applicants for business service on a current basis, the applicant may make appropriate request.

At the hearings there was criticism of the magnitude of certain increases requested by the applicant. Representatives of the cities of Long Beach and Santa Monica indicated that some increase probably was justified, and the representative of the city of Los Angeles offered no objection to some increase so long as the applicant's exchanges located in the Los Angeles extended area were not required to subsidize operations in other exchanges of the applicant.

[8] The rates herein authorized, estimated to produce an annual increase in operating revenue of \$2,200,000, have been developed generally in accordance with the principle that the charges for telephone service applicable in any one area shall not place an unreasonable burden on the balance of the company's customers.

## SECURITIES AND EXCHANGE COMMISSION

### Re American Gas & Electric Company

File No. 70-2365, Release No. 9819  
April 24, 1950

**D**ECLARATION relating to issuance of serial notes by a holding company; issuance permitted.

*Security issues, § 94 — Kinds of securities — Notes in place of preferred stock.*

The issuance of serial notes to provide funds for the redemption of cumulative preferred stock of a holding company was held to be appropriate and in accordance with the standards of § 7 of the Holding Company Act, 15

## RE AMERICAN GAS & ELECTRIC CO.

USCA § 79g, notwithstanding a general objection to the issuance of senior securities by holding companies having subsidiaries with substantial amounts of senior securities outstanding in the hands of the public, because the effect of the transaction was to replace preferred stock with a new security which, unlike the preferred stock, would be issued under a program providing for regular retirement and for complete elimination within fifteen years, it being noted also that the company had recently sold a large amount of common stock and contemplated the sale of additional common stock.



By the COMMISSION: American Gas and Electric Company ("American Gas"), a registered holding company, has filed a declaration and amendment thereto pursuant to the provisions of the Public Utility Holding Company Act of 1935, particularly §§ 6, 7, and 12 thereof, 15 USCA §§ 79f, 79g, 79l and Rules U-42 and U-50 of the Rules and Regulations thereunder, with respect to the issuance and sale pursuant to competitive bidding of \$27,000,000 aggregate principal amount of its serial notes. The purpose of the issuance and sale is to provide funds for the redemption of the  $4\frac{3}{4}$  per cent cumulative preferred stock of American Gas, of which there are now 151,623 shares outstanding, each share having a par value of \$100 and a redemption price of \$110. The remaining net proceeds of the serial note issue are to be applied to the prepayment of \$10,300,000 of certain serial bank loan notes of American Gas having serial maturities amounting to \$2,000,000 on December 1, 1955, and 8,300,000 of March 1, 1956.

The proposed new serial notes are to be due in the amount of \$500,000 in each of the years 1952 to 1955, inclusive, and in the amount of \$2,500,000 in each of the years 1956 to 1965,

inclusive. Accordingly, the serial notes will be completely retired at the end of fifteen years.

The effect of the proposed transactions will be to eliminate completely the cumulative preferred stock of American Gas. After consummation of the proposed transactions the capital structure of American Gas will consist of the \$27,000,000 principal amount of serial notes proposed to be issued, \$8,900,000 remaining of the presently outstanding serial bank loan notes, and 4,980,000 shares of common stock of the par value of \$10 per share.

As of December 31, 1949, total capitalization and surplus of American Gas and its subsidiaries on a consolidated basis aggregated approximately \$564,000,000. Of this amount 50.5 per cent represented debt, 15.7 per cent preferred stock, and 33.8 per cent common stock and surplus. The effect of the proposed transactions on the consolidated ratios is to increase the debt ratio, so that it will be 53.5 per cent with a corresponding decrease in the preferred stock. The ratio of common stock and surplus to total capitalization remains substantially unchanged.<sup>1</sup>

The \$8,900,000 serial bank loan notes now outstanding which will re-

<sup>1</sup> As of December 31, 1949 the total corporate capitalization and surplus of American Gas aggregated approximately \$177,000,000, of which 10.9 per cent represented debt, 8.9 per cent represented preferred stock, and 80.2 per

cent common stock and surplus. The proposed elimination of the company's preferred stock will result in a capital structure, on a corporate basis, consisting of approximately 20 per cent debt and 80 per cent common equity.

## SECURITIES AND EXCHANGE COMMISSION

main after the proposed transactions mature serially in each year from 1951 to 1955, inclusive, in annual amounts varying from \$1,500,000 to \$2,000,000, and will be completely eliminated by March 1, 1955. Of the new serial notes \$500,000 will mature in each of the years up to 1955 and thereafter \$2,500,000 will mature in each year until final maturity in 1965. Thus the over-all program will result in debt retirement of from \$2,000,000 to \$2,500,000 each year during the years up to 1955, and \$2,500,000 each year thereafter. The effect of this gradual retirement of debt will be to improve the ratios of long-term debt to total capitalization on a consolidated basis and to completely eliminate all of the corporate debt of American Gas so that the company's resulting capital structure by 1965 will consist only of common stock and surplus.

Under ordinary circumstances we consider inappropriate, under the standards of the act, the issuance of senior securities by holding companies which have subsidiaries with substantial amounts of senior securities outstanding in the hands of the public. However, in the present case, American Gas already has senior securities in the form of its present preferred stock. The effect of the proposed transactions is merely to replace the present preferred stock with another senior security, the new serial notes. The new serial notes, unlike the present preferred stock, will be issued under a program which will provide for their

regular retirement and their complete elimination within fifteen years. In appraising the proposed program, we note that American Gas in October, 1949, sold 498,081 shares of common stock to its common stockholders for an aggregate price of approximately \$22,000,000 and contemplates the sale within the coming year of additional common stock to yield approximately \$20,000,000. Under all the circumstances, therefore, we have concluded that the issuance of the proposed serial notes upon the terms proposed is appropriate and in accordance with the applicable statutory standards, since it meets the standards of Clause (A) of § 7(c) (2), 15 USCA § 79g (c) (2) as being for the purpose of refinancing the company's presently outstanding preferred stock and since we make no adverse findings under the provisions of § 7 (d).

We also deem it appropriate to grant declarant's request that the competitive bidding period be shortened to six days. Since the notes are proposed to be issued by competitive bidding pursuant to Rule U-50, we shall reserve jurisdiction to approve the price and spread after the results of the competitive bidding are submitted. We shall also reserve jurisdiction over fees and expenses pending submission of full information with respect to the services rendered.

An appropriate order will issue, subject to the reservations of jurisdiction indicated.

LOUISIANA PUBLIC SERVICE COMMISSION

## Ex Parte Springhill Telephone Company

Docket No. 5402, Order No. 5414  
May 17, 1950

**A**PPPLICATION by telephone company for authority to increase rates; granted.

*Return, § 111 — Telephone company.*

Telephone rates should be increased to produce a return of 6 per cent on net capital investment where present rates produce only 4.1 per cent.

By the COMMISSION: In this proceeding, Mr. J. E. Shultz, d b a Springhill Telephone Company (petitioner) filed an application under date of January 25, 1950, for an increase in rates and charges for telephone service in Springhill, Cullen, Sarepta, and Shongaloo, Louisiana, so as to produce additional gross revenues amounting to approximately \$7,407 per annum.

After due notice to all interested parties, the matter was heard at the regular Baton Rouge session of this Commission on April 5, 1950. The petitioner presented a witness who testified as to an inventory of the entire telephone plant and the original cost thereof as of February 1, 1950. This inventory showed that the total plant investment amounted to \$162,087.24.

The Commission's accounting staff examined the books and records of the applicant, including the aforementioned inventory and presented testimony pertaining to the results thereof. This examination indicated that the petitioner earned approximately 4.1 per cent on his net investment during the year 1949.

Petitioner operates four telephone exchanges in Webster Parish, the largest being a common battery exchange in the city of Springhill with auxiliary magneto facilities serving certain rural areas. The other exchanges are dial operated and are located at Cullen, Shongaloo, and Sarepta. The four exchanges serve approximately 1,400 subscribers, which represents an increase during the past four years of about 100 per cent.

According to testimony presented by the utility division of this Commission, it was the opinion of the staff that increased revenues aggregating \$7,407 per annum would result in a return in excess of 6 per cent. It was estimated that the said excess, after taking into consideration certain increased operating costs, consisting chiefly of increased wages due to the recently enacted Federal wages and hours law, would amount to something over \$1,000. In consequence, the staff suggested that increased revenues approximating \$6,000 would be sufficient to enable the applicant to earn 6 per cent on the rate base that was determined by the staff to be as follows:

## LOUISIANA PUBLIC SERVICE COMMISSION

Plant and Property December 31, 1949 .....	\$162,087.24
Materials and Supplies .....	1,646.23
Total .....	\$163,733.47
Reserve for Retirements .....	38,872.87
Rate Base .....	\$124,860.60

In consideration of the foregoing facts, the applicable laws and the public interest involved, it is the opinion of this Commission, and the Commission finds that:

(1) Applicant's net operating income for the year 1949 resulted in a return of approximately 4.1 per cent on his net capital investment.

(2) A fair and equitable return for a telephone utility in the state of Louisiana is 6 per cent per annum.

(3) Petitioner's rate base as of December 31, 1949, is \$124,860.60 which should be used for all future rate-making purposes, plus or minus any plant additions and retirements since the said date.

(4) Increased revenues amounting to approximately \$6,000 will be sufficient to enable the applicant to earn 6 per cent on his established rate base.

(5) Petitioner should submit adjusted rate schedules for telephone service in the city of Springhill and the towns of Shongaloo, Sarepta, and Cullen that will result in increased revenues of approximately \$6,000 per annum.

### UNITED STATES DISTRICT COURT, D. DELAWARE

## Re Interstate Power Company et al.

Civ. A. No. 1003

89 F Supp 68

February 23, 1950; on rehearing March 2, 1950

**A**PPPLICATION for enforcement of compromise plan providing for distribution of cash and securities escrowed pursuant to a holding company reorganization plan; plan approved subject to granting stockholders opportunity to present new evidence to Commission for purpose of determining whether circumstances have changed so drastically as to render the plan no longer fair and equitable.

#### *Procedure, § 30 — Commission findings — Construction of findings.*

1. A conflict between intimations or inferred meaning of findings in the early part of the Securities and Exchange Commission's opinion approving a compromise plan for distribution of cash and securities escrowed pursuant to an alternative plan for reorganization of a holding company and the conclusion contained in the final sentence of the opinion should be resolved in favor of the Commission, p. 124.



## RE INTERSTATE POWER CO.

*Appeal and review, § 28.9 — Order of Securities and Exchange Commission — Holding company reorganization.*

2. Findings of the Securities and Exchange Commission as to the fairness of a compromise plan for reorganization of a holding company are conclusive upon the court where there is evidence to support the findings and they are not contrary to law, p. 124.

*Intercompany relations, § 19.81 — Enforcement of holding company simplification plan.*

3. The district court, in entertaining an application for enforcement of a plan providing for distribution of cash and securities escrowed pursuant to an alternate plan for reorganization of a holding company, must assume that the Securities and Exchange Commission represents the interests of all classes of security holders, p. 126.

*Procedure, § 33 — Basis for rehearing — Holding company simplification proceeding.*

4. Whether changed circumstances since the Securities and Exchange Commission's approval of a holding company reorganization plan are sufficiently drastic to require reconsideration by the Commission before a court enforcement decree is entered is a matter for the Commission rather than the district court, particularly when the changed circumstances affect the question of valuation, p. 126.

APPEARANCES: Harry G. Slater, Chief Counsel, Division of Public Utilities, Myron S. Isaacs, Frank Field, and Alfred Letzler, Washington, D. C., for the Securities and Exchange Commission; William H. Foulk, of Wilmington, Del., David J. Colton and Alfred Berman (of Guggenheimer & Untermeyer), of New York city, for the Colton Group of Preferred Stockholders; Marshall A. Jacobs and Douglas A. Calkins (of Simpson, Thacher & Bartlett), of New York city, for Ogden Corporation; Paul J. Kern and James F. Dunn, of New York city, for Interstate Power Company, Preferred Stockholders Committee.

LEAHY, C.J.: This is an application by the Securities and Exchange Commission for enforcement of the terms of a "compromise plan" as modified and approved by the Commission. I indicate only briefly the provisions of the plan. A more detailed statement can be had from the opinion of the Commission issued June 8, 1949, Holding Company Act Release No. 9139. In short, the plan provides for the distribution of cash and securities escrowed pursuant to the Alternate Plan of reorganization of Interstate Power Company enforced by this court on January 7, 1948.<sup>1</sup> Parties having claims upon the escrowed assets are the Note Escrow Certificate-holder,

<sup>1</sup> This court approved a major phase of reorganization at an earlier time in these proceedings. See (1947) 70 PUR NS 193, 196, 71 F Supp 164, 166. In that opinion, the court stated:

"The SEC will continue proceedings for a final disposition of the issues raised concerning

the rank and status of the \$2,475,000 demand note and the 12,569 shares of Interstate's preferred stock held by Ogden. There will be no final determination of such issues until an order of the SEC with respect thereto has been approved by a court of competent jurisdiction in enforcement proceedings, . . . ."

# UNITED STATES DISTRICT COURT

Ogden Corporation ("Ogden"), the Debenture Escrow Certificate-holders ("debentures") and Preferred Escrow Certificate-holders ("preferred"). The Colton group objects to the plan because it is claimed that it is unfair and inequitable to the public holders of Interstate Power Company's preferred; i. e., the plan accords unfair treatment to the preferred stockholders as a class vis-a-vis the treatment to be accorded Ogden.

The staff of the Public Utilities Division of the SEC also were of the view and recommended to the Commission that the plan was unfair and inequitable to the public holders of Interstate Power's preferred stock. The basis for the staff's recommendation was the valuation placed on the escrowed stock of Interstate Power Company. The staff recommended an evaluation at \$8 instead of \$7.35.

The Colton group urges that the stock should be valued at least at \$8 per share, as recommended by the staff, and that since the Commission found that the subordination issue was established against Ogden, Ogden should be subordinated to the claims of the public preferred stockholders, and since this was not done, the plan is unfair and inequitable and is not supported by substantial evidence. The Commission and Ogden generally take the negative of this position and assert that there is substantial evidence to support the opinion of the Commission and it is not inconsistent with law.

[1, 2] Since the decision in this case depends in large part upon the findings and opinion relative to the subordination issue, it will be necessary to detail the facts and circumstances. In its

opinion, the Commission considered the subordination issue in great detail. After considering Ogden's defenses it was concluded: ". . . we find that the record shows a prima facie case for subordination predicated on the entire course of dealings between Utilities Power and Interstate" and it also was stated ". . . that a prima facie case for subordination has been established" and that the defenses of Ogden were without merit. It was further stated that ". . . the subordination principle may be applied to Ogden's claims." The Commission referred to the subordination issue as "prima facie" because while Ogden vigorously asserted its available defenses, nevertheless it continued to claim that it "reserved the right to introduce rebuttal evidence." The Colton group contends that "prima facie," as used in the Commission's opinion, must mean that the subordination issue has been established and consequently the conclusion of the Commission that there is a basis for compromise does not follow from its basic and definitive findings. The final sentence of the opinion of the Commission states: "We conclude on the facts before us that a compromise is not inappropriate, and we shall accordingly proceed to consider the fairness of the particular proposals presented in the Plan." (Holding Company Act Release No. 9139, at pp. 24, 27, 28.)

The issue which this court must pass on is a very narrow one, viz., are the earlier findings in the opinion of the Commission basic or is the final sentence of the opinion the ultimate and real finding of the Commission? I think the argument of the Colton group is far from frivolous. But I

# RE INTERSTATE POWER CO.

am not persuaded by it. True, the early part of the Commission's opinion indicates that the subordination doctrine should be applied against Ogden's claims. Nevertheless, where there is a conflict between such intimations or inferred meaning and the conclusion contained in the final sentence of the opinion, the conflict should be resolved in favor of the Commission. Obviously the Commission itself did not give the meaning to the earlier statements which the Colton group have urged they did. Consequently, the ultimate and decisive finding is that there is a basis for compromise on the subordination issue. Since there is evidence to support that finding and since the conclusion is not contrary to law, I am bound under Securities and Exchange Commission v. Central-Illinois Securities Corp. (1949) 338 US 96, 93 L ed 1836, 80 PUR NS 282, 69 S Ct 1377, to accept the Commission's finding.

Judicial review, as Professor Dodd has suggested (63 Harvard Law Review 298), has been greatly restricted by the Engineers decision, *supra*, 338 US 96, 80 PUR NS 282, and while he appears to be satisfied with the result, he nevertheless points out that the Engineers Case leaves little scope for litigation over the validity of SEC orders approving § 11 plans as fair and equitable. However, an enforcement order of this court, superficially at least, must carry the imprimatur of this court. For this reason, I have adopted the practice of indicating those situations in which, were I wholly free to make an independent determination, I would differ with the conclusion of the Commission. Re Federal Water & Gas Corp. (1949) 82 PUR

NS 547, 87 F Supp 289; Re Commonwealth & Southern Corp. (1949) 81 PUR NS 27, 84 F Supp 809. This is such a case.

I agree with the original view of the staff of the Commission that the plan is unfair and inequitable because of the valuation placed on the Interstate stock. I disagree with the staff on the next point, however. I think, from a review of the Commission's opinion and from an independent examination, that the subordination doctrine should be applied against Ogden's claims. Moreover, I am unimpressed by the arguments made by all parties—in which the Colton group does not join—that weight should be attached to Ogden's reserved right to put in rebuttal evidence. If there is evidence which is material, it should have been put in before the Commission. In fact, the very function of the administrative process, as I understand it, would be to make a determination based on reality and give little, if any, consideration to alleged secret contingent defenses. After long and elaborate hearings, it seems fantastic to attach weight and give large value to secret and contingent defenses asserted by Ogden against the claim of subordination.

As stated before, the Commission made an ultimate and decisive finding that there was a basis for compromise on the subordination issue. Hence, there is evidence to support that finding and since the conclusion is not contrary to law I shall entertain an order approving the plan. After the present matter was taken under advisement, the Colton objectors moved to introduce new evidence or to remand the cause to the Commission. Sev-

## UNITED STATES DISTRICT COURT

eral days ago they filed a second and supplemental motion for leave to introduce new evidence in support of the motion to remand. The proffer of proof is not persuasive enough to change the result I have reached above. Accordingly, the proposed order approving the plan may contain provisions denying the two motions.

### *On Petition for Rehearing*

[3, 4] The Colton Group seeks rehearing because of alleged changed circumstances affecting values. They urge a remand of these proceedings to the Securities and Exchange Commission for reconsideration as to whether the instant plan is fair and equitable in presenti. While the case was awaiting decision the Colton Group under several motions made proffer of proof indicating that drastic changes had occurred in the value of the Interstate stock. In approving the plan I did not discuss the so-called new evidence but merely stated that "The proffer of proof is not persuasive enough to change the result . . . reached above." The petition for rehearing argues that this is tantamount to saying that a change of values on which the plan was predicated, to the extent of some 250 per cent to more than 500 per cent, is not sufficiently persuasive to require a reconsideration of the fairness of the plan by the SEC.

The fact is the Colton Group misconceives the basis of my memorandum opinion on the valuation problem. Under the law, as articulated by the appellate courts, I must assume and I do assume the SEC represents the interests of all classes of security hold-

ers. Such assumption is inevitable on the record in this case; had the Commission thought, on the basis of the several motions filed by the Colton Group subsequent to hearing but prior to decision, that the drastic change in value of the Interstate stock was of sufficient importance to require a reconsideration of the fairness of the plan, the Commission manifestly would have informed this court of that fact. Obviously such a procedure is within the province of the Commission.

There often are frailties in any human organization, whether private or governmental, and this leads me to conclude that the Colton Group should be given the opportunity to verify that the Commission in this particular case consciously considered the problem posed in the various Colton motions. To that end I shall give the Colton Group fifteen days from the date of this memorandum to present its alleged new evidence to the Commission for the purpose of ascertaining whether the Commission thinks the circumstances have changed so drastically that the plan proposed is no longer fair and equitable. After this, I think the Commission, under its expert competence, should furnish this court one of the following types of information: (1) That it has considered the material constituting the so-called new evidence as referred to in the Colton motions, but is of opinion that such material does not affect the fairness and equity of the existing plan; or (2) that it has not considered the material in the Colton motions but wants more time to consider the problem posed by such proffer of new information.

## RE INTERSTATE POWER CO.

Such a procedure is not only fair to the Colton petitioners but also accords with the dictates of the Engineers Case, as pronounced in Securities and Exchange Commission v. Central-Illinois Securities Corp. (1949) 338 US 96, 93 L ed 1836, 80 PUR NS 282, 69 S Ct 1377. Several years ago, in connection with Re Standard Gas & E. Co. 63 PUR NS 464, 63 F Supp 876, after reversal by the appellate courts (1945) 61 PUR NS 175, 151 F2d 326, certiorari denied (1946) 327 US 796, 90 L ed 1022, 66 S Ct 820, I did consider changed circumstances and indicated that where I thought they were drastic enough I would remand the matter to the Commission. The

basis for this expression of opinion was a misconception on my part of the scope of judicial review by an enforcement court in a § 11 proceeding, 15 USCA § 79k. The scope of such review, as suggested in the earlier memorandum filed in the case at bar, was narrowly proscribed by the Supreme Court in the Engineers Case. Accordingly, I think whether changed circumstances are sufficiently drastic to require reconsideration by the SEC before a decree is entered, especially when the changed circumstances affect the question of valuation, is a matter which the late Justice Rutledge considered fell within the expertise of the SEC and not any Federal district enforcement court.

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## MASSACHUSETTS DEPARTMENT OF PUBLIC UTILITIES

### Mayor of City of Fall River et al. v. Eastern Massachusetts Street Railway Company

D. P. U. 9073  
June 21, 1950

**C**OMPLAINT against proposed curtailment of bus service by local transit company; dismissed.

*Service, § 233 — Curtailment — Declining patronage — Rates.*

A local transit company which is faced with declining patronage should be given a substantial amount of leeway in curtailing service in preference to applying for rate increases.

APPEARANCES: Roland G. Desmarais, Assistant Corporation Counsel, for the mayor of Fall River; J. Joseph Maloney, Jr., for the Eastern



## MASSACHUSETTS DEPARTMENT OF PUBLIC UTILITIES

Massachusetts Street Railway Company; John C. Webster, Town Counsel, for town of Stoughton; J. Harrington, for Local 174, A. F. of L. Street Railway Workers.

By the DEPARTMENT: Eastern Massachusetts Street Railway Company, by letter dated May 3, 1950, notified the Department of certain proposed curtailments of bus service in the Fall River area, involving 11 lines in Fall River and also in the Fall River-Boston service. Subsequently, the mayor of Fall River filed a complaint under Chap 159 of the General Laws, § 24, in opposition to the proposed curtailment. A public hearing was held on May 16th at which time the company introduced evidence of a serious drop in patronage in the lines involved and that the proposed curtailments were of an extent not greater than such decrease in riding. The city itself introduced no evidence but requested an adjournment in order to give it an opportunity to investigate. During the hearing on June 20, 1950, the only testimony offered was on behalf of the labor organization to which the employees affected by the curtailment belonged. The union presented figures showing only the number of riders who would be affected by a change in the schedules without demonstrating how they would be affected or in any way attack-

ing the figures presented by the company.

There is no doubt but that the proposed curtailments are reasonable in extent and we do not find that they will cause any substantial inconvenience or hardship to the public. It seems clear to us that a carrier which is faced with declining patronage should be given a very substantial amount of leeway in curtailing its service in preference to applying for increases in fares. We have so indicated on several occasions. See *Re Springfield Street R. Co.* (1949) D.P.U. 8556, 79 PUR NS 139; *Re Worcester Street R. Co.* D.P.U. 8709, Nov. 17, 1949; *Re Eastern Massachusetts Street R. Co.*, D.P.U. 8882, April 21, 1950. The same observations follow as regards the Fall River-Boston trips as are pertinent with respect to the balance of the operations of the so-called Fall River Division.

The financial reports filed by the company with the Department show that its over-all operations are becoming progressively less remunerative and that it is succeeding in keeping on operating at a profit only by economies in operations. Under these conditions we certainly do not feel we should interfere with the decision of the management to introduce such savings as it can so long as there is nothing in the record which shows that the proposal is detrimental to the wider interests of the public.





# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*



## PG&E to Build Additional New Power Capacity

**A**NTICIPATING a continuation of the rapid growth of power requirements in northern and central California, Pacific Gas and Electric Company recently announced that it is extending its construction program into 1952 and 1953.

The company has just ordered three new 100,000 kilowatt steam-electric generating units to be installed within three years. The total capacity of the new units will equal that originally planned for either the Moss Landing or Contra Costa steam plant, the largest installations on the company's system, according to N. R. Sutherland, vice president and general manager.

The new units will add 402,000 horsepower to the company's system at a cost of approximately \$50,000,000. They will be installed in the Moss Landing or Contra Costa plants, or both.

The new capacity and investment are over and above the company's six-year, \$800,000,000 postwar expansion program which is adding 1,826,400 horsepower to its generating capacity.

## Industrial Water Problems Charted in Hall Lab. Booklet

**I**NDUSTRIAL water problems of all kinds—procurement, treatment, usage and disposal—and the facilities and services offered in coping with them are described and charted in a new booklet just published by Hall Laboratories, Inc., Pittsburgh water-consultant firm.

Various kinds of industrial water problems, and their solution, are described in the booklet, which is entitled "Your Most Important Raw Material." Copies are available upon request from Hall Laboratories, Inc., Hagan building, Pittsburgh, Pennsylvania.

## KG&E Erecting New Outdoor Type Steam-Electric Station

**T**HE KANSAS GAS AND ELECTRIC COMPANY has started construction on a new outdoor type steam-electric generating station according to Murray F. Gill, chairman of the board and president.

The new plant, switch yard, and transmission facilities costing about seven million dollars will be ready for operation early in 1952. One General Electric turbo-generator rated at 40-44,000 kw will be installed initially with provision for addition of a similar unit later.

Boilers may be fired by either gas, oil, or coal at option. Ebasco Services, Incorporated, is designing and constructing the new plant in coordination with KG&E engineers.

This will be the first outdoor type of power plant to be built in Kansas. Only the boiler fronts and auxiliaries will be sheltered from the weather.

The entire plant will be automatically controlled from a centrally located control room.

## Nickel Cadmium Names Collins As Sales Representative

**T**HE NICKEL CADMIUM BATTERY CORPORATION has appointed J. F. Collins, Statler building, Boston 16, Mass. as New England sales representative, according to an announcement by A. B. Strange, treasurer and general sales manager.

Mr. Collins will specialize in sales of Nicad Storage Batteries for electric utility applications.

## New Booklet Details File Simplification

**"H**ow To Simplify Your Files and Filing Systems" is the subject of a new 40 page booklet released by Remington Rand Inc. This booklet is based on the premise that many time-saving, work-saving filing techniques are often unknown to the average file clerk.

The booklet charts the life cycle of a file, beginning with the origin of a record, whether internal or external, then progressing through indexing, the file housing and protection, and charge-out, to the retention or transfer of the record, including the use of modern microfilming equipment.

"How to Simplify Your Files and Filing Systems" will be used as the corner-stone of Remington Rand's 58th annual filing campaign, one of the company's major educational efforts. Copies may be obtained by writing to Frank J. Hastings, Remington Rand Inc., 315 Fourth avenue, New York 10, N. Y. Ask for LBV 396.

## Redi-Power Talk-A-Phone

**D**ESIGNED to overcome high noise levels and solve unusual intercommunications problems, the Talk-A-Phone Company, Chicago, has introduced Redi-Power, a self-compensating power control unit. Redi-Power will be available immediately as optional equipment in the Talk-A-Phone Chief line, according to Arie Liberman, president and chief engineer.

Redi-Power Talk-A-Phone also provides

(Continued on page 26)

Mention the **FORTNIGHTLY**—It identifies your inquiry

power to reply from considerable distances from the unit, thus overcoming the problem of being unable to reply to paging. It automatically supplies the right amount of power at any time for any station in an intercom system, and is especially effective where there is a high noise level, or where remote installations complicate intercommunication.

### L. Bees Named Vice President By Trumbull Electric Mfg. Co.

LEONARD E. BEES has been appointed vice president in charge of manufacturing of The Trumbull Electric Manufacturing Company in Plainville, Connecticut, according to a recent announcement by E. T. Carlson, president. Mr. Bees has been manager of manufacturing since August, 1949.

In this position Mr. Bees is responsible for the formulation of manufacturing policies and the conduct of all activities directly related to the manufacturing, packing and shipping of the company's products at all company locations.

### New G-E Terminal Board

A NEW and improved type EB-5 terminal board for switchboards, control apparatus, and other similar uses has been introduced by the switchgear divisions of the General Electric Company.

The new board is rated 600 volts, 30 amperes and is available in four, six, eight, and twelve

terminal units. Each terminal will accommodate wire sizes AWG 18 to 10 inclusive. A white plastic marking strip on the board provides ready wire identification. Two connector types are available, a washer-head screw type and a pressure type.

Optional product features offered are short-circuiting strips for current-transformer secondary circuits and hinged covers with knurled-head captive holding screws.

### Westcott & Mapes Adds to Staff

WESTCOTT & MAPES, INC., architectural engineers, New Haven, Connecticut, announced the appointments of a new senior structural engineer and a senior electrical engineer.

According to the announcement, the two additions to the staff are necessary because of the firm's increased contract work.

Theodore F. Collier will be senior structural engineer. Edgar E. Cobb will be senior electrical engineer in charge of design.

Mr. Collier was formerly in charge of structural and architectural layout and design of various types of steam electric and industrial developments for Sanderson & Porter.

While associated with that firm he served as assistant project design manager for the construction of a power plant for the Monongahela Power Company. The plant included a

(Continued on page 28)

## PUBLIC UTILITY PRINTING SPECIALISTS

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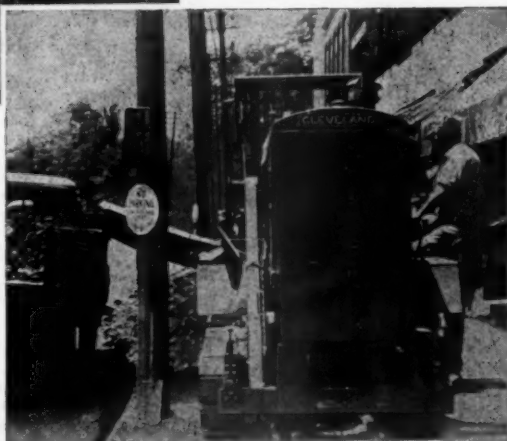
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50,000 kw turbine and pulverized coal-fired steam generator.

Mr. Cobb was formerly electrical project engineer in the design and construction division of the Ebasco Services, Inc., of New York.

While with the Ebasco Services, he was engaged in power flow studies and construction course studies for the Arkansas Power and Light Company. As project engineer for the American & Foreign Power Company, Inc., he worked on the electrical designs for power plants and transmission lines in the United States and other countries.

## Penn Industrial Announces New Automatic Flow Controller

PENN INDUSTRIAL INSTRUMENT CORPORATION of Philadelphia, Pennsylvania, announces a new automatic flow controller which provides lower maintenance with higher accuracy and fast response. Flow rate is measured by the Penn Magna Clutch flow meter which utilizes a frictionless magnetic coupling between the float on one hand and the pen and control mechanism on the other.

For further information write for Bulletin 950, Penn Industrial Instrument Corporation, 3116 North 17th street, Philadelphia 32, Pennsylvania.

## D. B. Altman to Head New Kuljian Department

DANIEL B. ALTMAN, nationally known engineer and consultant on business problems, has been appointed by The Kuljian Corporation, engineers and constructors, of Philadelphia, to head its new department of management engineering, according to an announcement by James L. Cherry, executive vice president.

Mr. Altman was formerly a partner in Hare, Bready & Company, after a number of years with Day & Zimmermann as engineering consultant. In his new capacity he will bring to bear an experience of over twenty years in helping to solve problems of management, plant efficiency, personnel, and finance, for clients of the Kuljian Corporation on four continents.

In addition to its head office in Philadelphia, the Kuljian Corporation has offices in New York, Washington, and St. Petersburg, Florida; and in Rome, Italy; Calcutta, India; and Caracas, Venezuela.

## Pyrene Offers Impregnated Dry Lubrication Processes

PROCESSES that produce a solid film or "dry" lubricant impregnated into the surfaces of metals, plastics, rubber, and ceramics to reduce friction and wear are now offered by the metal finishing division of the Pyrene Manufacturing Company, Newark, New Jersey. It is claimed that the highly desirable characteristics of graphite are retained, throughout wide ranges in temperature, in a

permanent film that is unaffected by exposure to solvents or weather.

These processes have already proved their value for reducing wear in internal combustion engines and other moving parts. They are in use in disc clutches, brakes, gears, worms, and splines. The electrical and aviation industries are employing them to reduce erosion and inhibit corrosion.

## Delta-Star Booklet Describes Conductor Rail Supports

"CONDUCTOR Rail Supports" is the title of publication 5005, just released by the Delta-Star Electric Company. The publication describes various designs of supports available for over-running and under-running conductor rails. The latter type features a construction that is said to prevent dropping the rail even if the porcelain is completely broken away. All types are rated for 750-volt service but the insulators are of such size that electrical rating is considerably greater than service rating.

Copies may be obtained from Delta-Star Electric Company, 2400 Block, Fulton street, Chicago 12, Illinois.

## New "Industrial Monkey" Eliminates Pole Climbing

A new labor-saving machine designed to reach hard-to-get-at heights has been developed by Capital Industries, Inc., Portland, Oregon, and is being manufactured by the Harsh Machine Works of Portland.

Aptly named the "Industrial Monkey," the machine was especially planned for use by power companies. It consists of an extendable steel boom mounted on any 1½ ton or larger truck. On the end of the boom is a rail-protected, automatically self-leveling work platform insulated to protect against 8000 volts. Sixteen feet long closed, the boom extends to 26 feet and is mounted on the truck at a point approximately 6½ feet above the ground. The additional height of the worker enables him to work safely and comfortably at heights up to 40 feet.

Hydraulic in operation, the boom is controlled by the worker on the platform by an arrangement of foot buttons. It may also be operated from the truck cab.

Descriptive folder may be obtained from the Capital Industries, Inc.

## Rural Service Distribution Transformers Described

A new bulletin on rural service distribution transformers has been released by Allis-Chalmers Manufacturing Company.

Described are three basic types of transformers—the RU with double gap and internal protective link, the RU with arrester-load limited combination, and the ACP with built-in secondary breaker.

Copies of bulletin No. 61B6726A are available upon request from Allis-Chalmers Manufacturing Company, 965 S. 70th street, Milwaukee, Wisconsin.



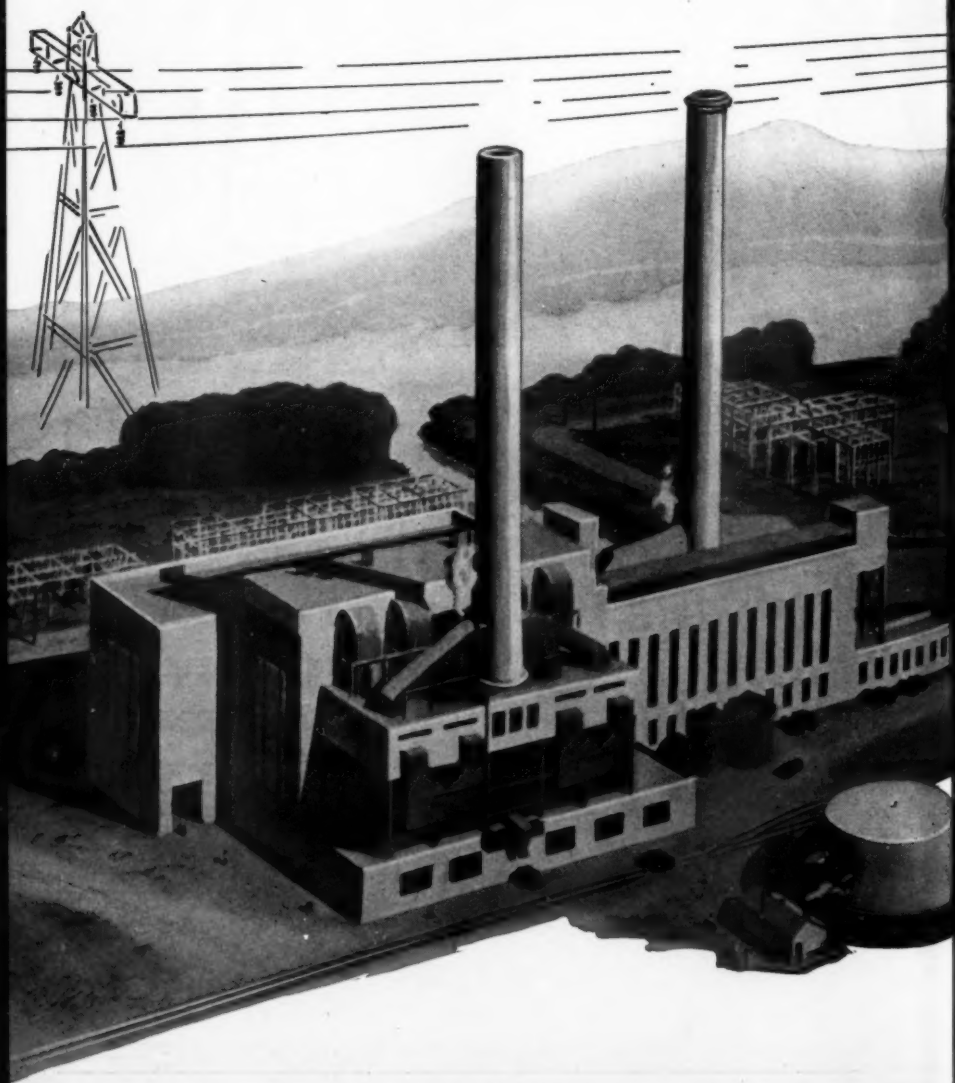
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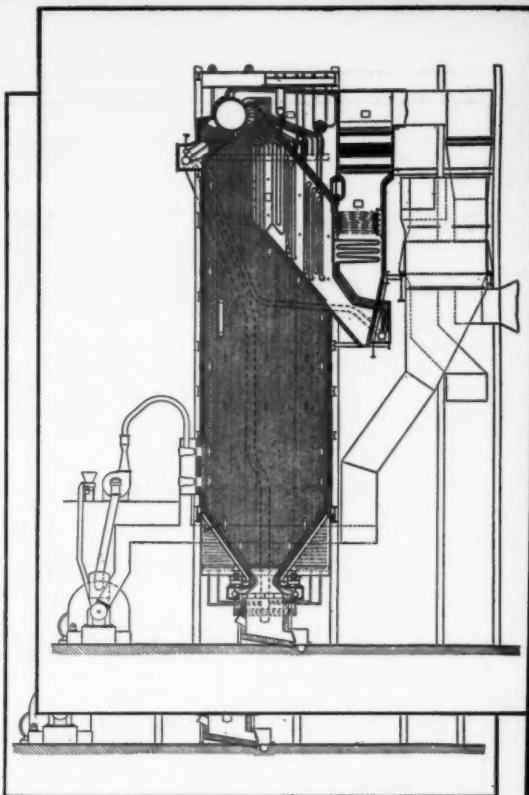
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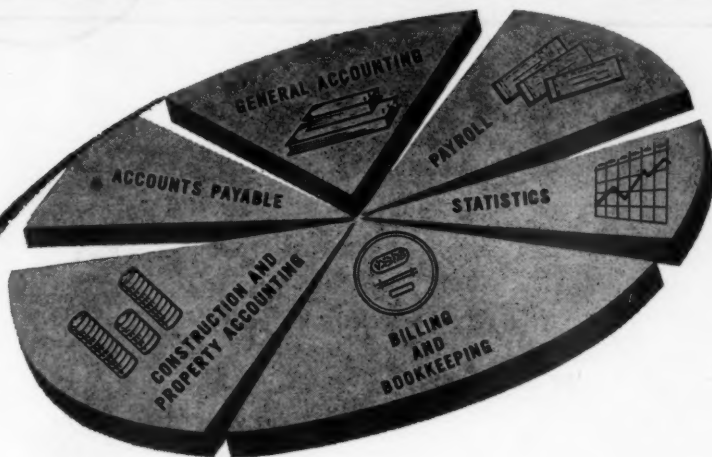
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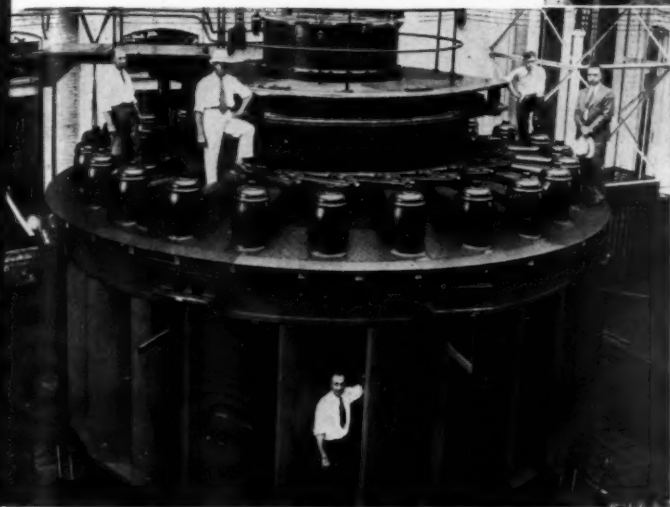
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